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ABSTRACTS

Institutions and Culture:
health policy and public opinion in the u.s. and britain

By LAWRENCE R. JACOBS

This article argues that explaining institutional differentiation requires the incorporation of public preferences and understandings into accounts of state development. Using primary evidence concerning policy discussions and public opinion, it suggests that culture determined the specific features of both the British National Health Service Act of 1946 and the American Medicare Act of 1965, as well as the differences between them. Examining the interaction of institutions and culture inserts democratic standards into the top-heavy Weberian discussions of state autonomy and accounts for the seemingly inexplicable failure of policymakers to ensure cost control over the new health programs.

Explaining the Long-Term Maintenance of a Military Regime:
panama before the u.s. invasion

By STEVE C. ROPP

Before the U.S. invasion of December 1989, Panama experienced one of the longest periods of military rule in the modern-day history of Latin America. While numerous authoritarian military regimes emerged in the region during the 1960s and established for themselves a relatively high degree of autonomy from both domestic and international actors, only those in Panama, Paraguay, and Chile survived until the late 1980s. And of these three surviving military regimes, only Panama's was ended through the application of external military force. For the past several years, there has been considerable discussion of the factors that seem best to account for General Manuel Antonio Noriega's personal ability to resist U.S. pressure from 1987 until 1989 and to largely insulate himself from the political and economic constraints of Panamanian domestic politics. However, much less attention has been devoted to discussion of the factors that explain the long-term maintenance of the military authoritarian regime in existence for fifteen years prior to his assumption of power. This analysis suggests that the long-term maintenance of Panama's military authoritarian regime was due in large part to its ability to acquire substantial amounts of foreign capital. During the 1970s, such capital was preferentially obtained from the international banking community. During the 1980s, it was obtained through illicit activities of various kinds, including participation in the growing international drug trade.

Domestic Structure and Preventive War:
are democracies more pacific?

By RANDALL L. SCHWELLER

Realists have long viewed uneven rates of growth among states as a major cause of wars. According to strict logic of realpolitik, a declining dominant power should launch a preventive war against a rising challenger as a prudent long-term security strategy. But historically, power shifts have only sometimes resulted in war. Although preventive war has been the preferred response of declining authoritarian leaders, no democracy has ever initiated such a war. Instead, depending on the regime type of the rising challenger, democratic states have chosen accommodation, defensive alliances, or internal balancing to solve the problem of impending decline. In addition to establishing the correlation between preventive war and authoritarian regimes and explaining why democratic states forgo this option, this essay (1) develops a model based on the domestic structures of the leader and challenger that predicts which strategy will be employed by a declining dominant power and (2) tests the propositions against historical survey data and several in-depth case studies.

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East Asia's Economic Success:

CONFLICTING PERSPECTIVES, PARTIAL INSIGHTS, SHAKY EVIDENCE

By ROBERT WADE

Neoliberal economists say that growth is easy, provided the state does not obstruct the natural growth-inducing processes of a capitalist economy. They point to the success of South Korea and Taiwan as evidence that this proposition also holds for quite poor economies. Using chapters of Helen Hughes's edited volume by way of illustration, this article shows that the neoliberals ignore so much contrary evidence as to suggest that the neoliberal paradigm has entered a degenerative stage, like classical economics in the years before Keynes's breakthrough and like much Marxist writing of the 1970s.

Two recent books about East Asia offer ways forward. The one by Alice Amsden argues that Korea has done better than other developing countries because it has created a more powerful synergy between a state that aggressively steers market competition and large, diversified business groups whose firms focus strategically on production processes at the shop floor. In conditions of "late development" this synergy is the key to success. Stephan Haggard's book accepts the core economic mechanism of the neoliberals but argues that the choice between sensible export-oriented policies, as in East Asia, or unsensible secondary import-substitution policies, as in Latin America, is determined by a complex conjunction of international pressures, domestic coalitions, political institutions, and ideas.

Both books make important contributions to the debate. But they are weakened by not situating the experience of their case studies within an account of trends in the world system and by not addressing the question of what prevented massive "government failure" in market interventions in the East Asian cases. The last part of this paper takes a short step in this direction.

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INSTITUTIONS AND CULTURE
Health Policy and Public Opinion in the U.S. and Britain

By LAWRENCE R. JACOBS*

THEORETICAL and empirical inquiry had traditionally suggested that the expansion of political rights by liberal democracies coincides with the limiting of the mass public's influence on detailed policy-making. Thus, a persistent theoretical argument holds that the role of the citizen should be limited to selecting (from among a set of competing candidates) the leaders who will make the actual policy decisions.[1] Empirical research within diverse traditions—such as those associated with V. O. Key, rational-choice practitioners, and Max Weber—confirms that the mass public's influence is limited to the broadest government decisions; elites are left with free rein to determine the "details" of policy-making.[2] Institutional change and programmatic innovation are treated as essentially endogenous.

This article uses extensive empirical research on U.S. and British health policy to explore the impact of public preferences and understandings on policy discussions among interest groups, bureaucrats, and politicians. It concludes that the mass public has extensive influence on detailed policy-making. In particular, the article focuses on the formulation of the British National Health Service (NHS) Act of 1946 and the American Medicare Act of 1965.[3] The central analytic concern is to explain the relationship of policymakers to the major relevant interest groups and to account for specific changes in administrative arrangements. It is sug-

* I would like to acknowledge the substantial contributions made by the following people: Paul Addison, Lawrence Brown, Raymond Duvall, John Freeman, Fred Greenstein, Charles Hamilton, Jennifer Hochschild, Joel Krieger, Richard Pious, Julie Schumacher, Robert Shapiro, Rosemary Stevens, and Charles Webster. I would also like to acknowledge research support from Oberlin College, the John F. Kennedy Foundation, and the Lyndon B. Johnson Foundation.

[1] Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London: Allen and Unwin, 1976).

[2] Key, *Public Opinion and American Democracy* (New York: Alfred A. Knopf, 1961); Peter Evans and John Stephens, "Studying Development since the Sixties," *Theory and Society* 17, no. 5 (1988).

[3] Although I refer to the British NHS Act of 1946, this act formally applied to England and Wales; Scotland was not incorporated into the "British" health service until the passage of the 1947 NHS Act.

World Politics 44 (January 1992), 179–209

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gested that existing research, especially by Weberians, anticipates that policymakers will become locked into an insulated, cooperative relationship with interest groups and that their judgment of organizational capacity will determine detailed administrative changes. This article, by contrast, indicates that strong public sentiment produced weak interest group influence and administrative arrangements that ignored or defied the technical assessments of elites. In short, institutional changes are inseparable from public preferences and understandings.

This analysis of the relevance of the mass public to the formulation of health policy addresses the enduring problem of explaining institutional differentiation—the dramatic differences between, and the specific features of, the NHS and Medicare acts. In comparison with other Western countries, the U.S. and Britain have often been assumed to be broadly similar, sharing not only a language but also a reticence about state intervention and a support for individual freedom. Both American and British policymakers have balanced enduring liberal commitments to individualism and minimum government, on the one hand, with more immediate demands for expanding state involvement in health care, on the other.

Nonetheless, these broadly similar countries produced health legislation that differed significantly in terms of basic principles (e.g., universal versus more selective coverage) and administrative arrangements. The British legislation established government provision of a comprehensive range of medical services to the entire population free of charge at the point of delivery. The U.S. funneled government money into a privately run health system for selected groups: the Medicare Act established a program for the indigent based on a means test as well as two related insurance programs for recipients of Social Security. These American programs provided money to a limited segment of the population (the aged and the means-tested indigent) to purchase a limited range of services from nongovernmental providers.

The traditional approach to comparative political development cannot adequately account for the evolution of dramatically different institutions in these two broadly similar countries. The study of politics across Western nations has typically contrasted the "strong" and intrusive states of the European continent with their polar opposite—the "weak" or antistate systems of the U.S. and Britain.[4] The tendency to identify Anglo-American state development as the exception to the "normal" pattern is part of a more general tendency to pursue a negative approach in analyz-

[4] Gabriel A. Almond and G. Bingham Powell, *Comparative Politics: A Developmental Approach* (Boston: Little Brown, 1966).

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ing American politics; that is, scholars study American political developments in terms of what they are *not*.[5] This negative style of comparative analysis typically focuses on a key variable—state strength or working-class political mobilization—that is found among European nations but not in the U.S.

Such a reliance on rigid, often idealized contrasts with other countries in making broad comparisons hinders the development of adequate explanations for institutional change. The traditional comparative framework, which bifurcates state development into the "strong" continental tradition, and the "weak" Anglo-American exception, cannot adequately explain the differences between, and the specific features of, the NHS and Medicare acts. This article argues instead that these two acts were products of a common process in which public preferences and understandings took precedence over the demands of interest groups and the concern of state actors for administrative capacity. Despite this common process and despite shared legal and cultural customs, differences in the relationship between public opinion and policy-making in the U.S. and Britain produced dramatic differences in the health policies of the two countries.

This article is divided into three sections. Section I examines existing interpretations of institutions and culture and challenges the tendency of each of these interpretations to bifurcate into two separate and often unrelated accounts. Recent Weberian interpretations of institutional change assume that policymakers respond to demands of interest groups and alter institutional arrangements largely as a function of "objective" administrative capacity. Neglected or altogether ignored are the preferences and understandings of the mass public. By contrast, the interpretation that focuses on culture emphasizes subjective factors. There has been a multidisciplinary convergence in the treatment of culture: it is seen as representing socially shared meanings that derive from the interaction of social beings and that are embedded in institutions. This article examines culture by using polls to capture temporary preferences and social historical evidence to identify more enduring public understandings. Cultural explanations, though, are also one-sided, in that they ne-

[5] Recognizing the crude nature of these comparative distinctions, scholars have recently modified the simple dichotomies of weak-strong states and mobilized-unmobilized working classes. For examples of the former, see Peter Katzenstein, *Corporatism and Change* (Ithaca; N.Y.: Cornell University Press, 1984); and idem, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985). For examples of the latter, see Walter Korpi, *The Democratic Class Struggle* (London: Routledge and Kegan Paul, 1983); and Jill Quadagno, *The Transformation of Old Age Security: Class and Politics in the American Welfare States* (Chicago: University of Chicago Press, 1988).

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glect the institutional and political processes that are critical for determining whether and how culture does in fact influence detailed government decisions.

Section II examines the impact of public preferences and understandings on the formulation of the NHS and Medicare acts. Using interviews with major policymakers as well as published and archival records of the two governments, this section analyzes policymakers' relationships with major interest groups and their detailed decisions concerning important new administrative arrangements. The concluding section considers this empirical analysis in the context of recent democratic theory and its argument for expanding citizen participation in policy-making. This article, then, offers an empirical and theoretical critique of the existing analysis of liberal democracy.

I. The Nature of Politics: Institutions and Culture

Institutions without Subjects

Diverse research traditions have relegated the mass public to a limited role in detailed policy-making. This article, however, focuses on a contemporary analysis of institutions, one motivated by Max Weber's theoretical insights and closely associated with the work of Theda Skocpol. This specific variant of Weberian research has particular theoretical relevance because it explicitly analyzes both the independence of government elites and the making of detailed policy decisions. It asks how much free rein elites have and why they choose a particular policy direction when altering administrative arrangements.

This variant of institutional research has tended to draw on that aspect of Weber's writings which stresses that "the advance of bureaucratic organization" is due to its "purely *technical* superiority over any other form of organization."[6] Weber emphasized the "objective" nature of this advance in modern organizational forms by drawing direct parallels with the advent of mechanical modes of production: the introduction both of machines to the process of production and of the bureaucratic mechanism to modes of organization ushered in impersonal routines that were cheaper, faster, and more predictable. Modern bureaucratic organization

[6] Max Weber, "Bureaucracy," in H. H. Gerth and C. Wright Mills, eds., *From Max Weber* (New York: Oxford University Press, 1946), 214. Weberian research has developed in diverse directions. This article is concerned with one variant, which emphasizes the "technical" organizational attributes of states. The work of other Weberian scholars emphasizes the role of nontechnical factors, such as mass public attitudes. For examples, see Katzenstein (fn. 5, 1984 and 1985); and Alfred Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton: Princeton University Press, 1978).

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enhanced our physical capacity to achieve our ends by structuring state activity to conform to "purely objective considerations," which were guided by "*calculable rules* and [were] 'without regard for persons.' "[7]

Contemporary Weberians have analyzed the state's "technical" organizational attributes by examining the two related concepts of "capacity" and "autonomy." This technical interpretation of institutional change has developed the concept of capacity from Weber's analysis of two organizational attributes—specialization and hierarchy. Although the definition of specialized tasks (performed by full-time, salaried experts) is an important part of bureaucratic development, contemporary institutional research generally concentrates on the emergence of differing degrees of hierarchy.

Both American and British institutions have been viewed as failing to develop fully along bureaucratic lines because of the dispersal of authority; that is, no one group of officials is able to take the lead in formulating policy. Neither state, then, has a firmly ordered system of authority in which a relatively small number of high officials can dominate the formulation of policy by supervising their subordinates. Weberians conclude that the American state has historically "defied authoritative control and direction" because of its federal structure and its fragmentation of authority within the national government. Using organizational attributes to assess "objective" capacity, this techno-Weberian interpretation concludes that the American state is characterized by "structural weakness."[8]

Weberians expect an institution's existing administrative capacity to be a primary factor in determining the direction of future change. In general terms, several studies conclude that the nineteenth-century qualities of "statelessness" and reliance on political parties for distributing patronage distorted subsequent institutional changes, which led to incoherence and an incomplete development of impersonal and rule-governed routines.[9] In a more detailed analysis of the significance of existing state capacity for future institutional change, Skocpol and Finegold examine the establishment during the New Deal of two new executive branch offices—the National Recovery Administration (NRA) and the

[7] Weber (fn. 6), 214–16.

[8] Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities* (New York: Cambridge University Press, 1982), 290; Ann Orloff and Theda Skocpol, "Why Not Equal Protection? Explaining the Politics of Public Social Spending in Britain, 1900–1911, and the United States, 1880s–1920," *American Sociological Review* 49 (December 1984).

[9] Skowronek (fn. 8); Orloff and Skocpol (fn. 8); Ann Orloff, "The Political Origins of America's Belated Welfare State," in Margaret Weir, Ann Orloff, and Theda Skocpol, eds., *The Politics of Social Policy in the United States* (Princeton: Princeton University Press, 1988).

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Agricultural Adjustment Administration (AAA).[10] Emphasizing its high degree of specialization and hierarchical control, they argue that the AAA was an "island of state strength in an ocean of weakness." With its specialized skills and hierarchical control over policy formulation, a small group of officials was equipped to design and implement agricultural policies characterized by clear priorities and minimal internal contradictions. But NRA policies for regulating industry suffered from the same weaknesses that typified the American state in general: fragmentation and uncertainty about basic goals. Weberians hypothesize, then, that an institution's existing organizational attributes prefigure the direction of future policy.

The second critical concept of Weberian analysis, autonomy, refers to the potential of state actors to define and pursue distinctive goals that are independent of and often in opposition to the interests of leading societal groups and individuals. In particular, it is claimed that the autonomy of state actors (defined to include bureaucrats and elected politicians) is a function of administrative capacity. Drawing upon research on "policy networks,"[11] Weberians suggest that authoritative decision makers grant certain societal groups the privilege of multiple points of access and disproportionate attention. Thus, in the context of private control of economic activity, state actors incorporate interest groups (which typically represent producers of critical goods and services from business and labor) into "patterned interrelationships" of bargaining. New policies emerge from the ongoing bargaining between state actors and representatives of relevant producers.

According to the Weberians, state actors are expected to exercise autonomy from relevant interest groups when it seems administratively feasible for existing institutions to execute a new policy; when the pursuit of distinctive policies requires the costly and uncertain development of new state capacity, state actors are expected to be especially responsive to the demands of interest groups.[12] Thus, Skocpol and Finegold argue that the significant institutional capacity of the AAA equipped it to exercise an "administrative will" independent of the demands of farm groups, whereas NRA's comparatively weak capacity for hierarchical control and its limited specialized knowledge made its officials unwilling and unable to intervene autonomously in industry. To have expected otherwise

[10] Theda Skocpol and Kenneth Finegold, "State Capacity and Economic Intervention in the Early New Deal," *Political Science Quarterly* 97 (Summer 1982).

[11] Peter Katzenstein, ed., *Between Power and Plenty: The Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978).

[12] Orloff and Skocpol (fn. 8).

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would have "asked too much of . . . the government machinery of the time."[13] Similarly, Orloff and Skocpol argue that British policymakers' confidence in the capacity of their government to implement social policies led them to take the initiative in formulating pathbreaking social insurance legislation, whereas the weak capacity of the American state made comparable policies seem neither feasible nor desirable.[14]

In short, the Weberians offer a technical interpretation of institutional change: the "objective" capacity of existing administrative organizations is expected in large measure to determine the state's autonomy and the direction of future state developments.

Culture without Institutions

Cultural explanations of politics challenge the Weberians' central assumption—that it is possible to ascertain the "objective" status of administrative capacity. All members of a society are *enveloped* in culture, which ensures that the "technical" assessments of elites is socially constructed and imbued with socially shared value judgments.

In analyzing the ways people think and behave, anthropologists, social historians, and social scientists have come to believe that culture is grounded in social relations: in the actions and interactions among members of a society as they attempt to make sense of their contexts.[15] It is through social interactions that the core of culture—meaning and understanding—comes to be shared and reproduced. The tendency of scholars to equate culture with social relations and shared meanings has fostered a growing emphasis on the mass public's competency; it possesses extensive explicit and tacit knowledge about its society.[16]

According to this view, institutions embody or represent the orga-

[13] Skocpol and Finegold (fn. 10), 268.

[14] Orloff and Skocpol (fn. 8).

[15] Clifford Geertz, *The Interpretation of Culture* (New York: Basic Books, 1973); Anthony Giddens, *Central Problems in Social Theory* (Berkeley: University of California Press, 1979); E. P. Thompson, "The Poverty of Theory or an Orrery of Errors," and idem, "The Peculiarities of the English," in Thompson, *The Poverty of Theory and Other Essays* (New York: Monthly Review Press, 1978); idem, *The Making of the English Working Class* (London: Vintage Books, 1966); Peter Berger and Thomas Luckmann, *The Social Construction of Reality* (Garden City, N.Y.: Doubleday, 1966); Mary Douglas, *In the Active Voice* (London: Routledge and Kegan Paul, 1982); idem, *Natural Symbols* (Harmondsworth: Penguin, 1970); Aaron Wildavsky, "Choosing Preferences by Constructing Institutions: A Cultural Theory of Preference Formation," *American Political Science Review* 81 (March 1987).

[16] The knowledge of social actors is based on their explicit monitoring of their environment as well as their tacit understanding of their society. Whereas explicit monitoring means that individuals can give reasons and rationalize their conduct, tacit understanding refers to an individual's stock of unarticulated knowledge, which he/she uses implicitly to orient him/herself and to interpret the acts of others. See Giddens (fn. 15); Steven Brown, *Political Subjectivity* (New Haven: Yale University Press, 1980); Sherry Ortner, "Theory in Anthropology since the Sixties," *Comparative Studies in Society and History* 26 (January 1984).

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nized existence of culture; they organize social interaction among the members of society. Institutions are the source of shared meanings and understandings. Culture, then, is not an attribute of a lone individual or part of an isolated consciousness. Rather, even at the individual level it is largely a reflection of institutions.[17]

A broad consensus has consequently emerged among both Marxists and non-Marxists that culture is a mediating factor, or "middle term," between environmental conditions (such as administrative capacity and economic or class forces) and human behavior. Culture represents the subjective orientations by which members of a society can understand and respond to their environment.[18] Thus, culturalists pose a direct challenge to Weberian theoretical expectations that state actors can and do measure the objective administrative capacity of the state.

Two aspects of culturalist analysis are particularly relevant to this article: its treatment of culture and its implications for investigations of policy-making. The study of culture often concentrates on the mass public; culturalists (especially anthropologists and historians) focus on the perspective of the "ordinary" social actor.

The investigation of social actors by culturalists is at odds with most other American social science research. The typical empirical analysis of culture is exemplified by the "political culture" tradition, which uses polling data to measure "things that exist within individuals."[19] According to this approach, culture is equated with an individual's immediate preferences, and the culture of a country is equated with the aggregation of individual responses to polling questions. By using polls narrowly to

[17] Wildavsky (fn. 15).

[18] Both neo-Marxists and non-Marxists agree that it is not possible to "decode" and trace human behavior back to its "real" material essence. For examples, see Thompson (fn. 15, 1978 and 1966); Ira Katznelson, "Working-Class Formation: Constructing Cases and Comparisons," in Katznelson and Aristide Zolberg, eds., *Working Class Formation* (Princeton: Princeton University Press, 1986); Lynn Hunt, *Politics, Culture, and Class in the French Revolution* (Berkeley and Los Angeles: University of California Press, 1984); and Harry Eckstein, "A Culturalist Theory of Political Change," *American Political Science Review* 82 (September 1988). The neo-Marxist argument that human behavior is not simply the product of material forces has been roundly criticized, alternately for abandoning the orthodox Marxist concern with economics and for continuing to overemphasize material conditions. For an example of the former, see Richard Johnson, "Edward Thompson, Eugene Genovese, and Socialist-Humanist History," *History Workshop Journal* 6 (Autumn 1978). For examples of the latter, see Lynn Hunt, ed., *The New Cultural History* (Berkeley and Los Angeles: University of California Press, 1989); and Gareth Stedman Jones, *Languages of Class: Studies in English Working Class History* (Cambridge: Cambridge University Press, 1983).

[19] Ronald Inglehart, *The Silent Revolution: Changing Values and Political Styles among Western Publics* (Princeton: Princeton University Press, 1977), 4; idem, *Culture Shift in Advanced Industrial Society* (Princeton: Princeton University Press, 1990); Gabriel A. Almond and Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963).

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track individual preferences, however, this analysis disembodies culture into discrete and temporary parts. Meaning-centered approaches, by contrast, insist that culture is an attribute not of individuals but of organized social interactions.

To avoid operationalizing culture at the individual level, this article taps both the enduring aspects of culture and the more explicit (often transitory) preferences of the public. To capture such preferences, published as well as previously unpublished (government) polling data is examined; to tap culture's enduring and more general aspects, social historical evidence is used. As social history has gained respectability over the past three decades, the analysis of the past has shifted from the perspective of elites toward that of ordinary people. There is now, as a result, a vast literature on ordinary people's enduring knowledge or understanding of themselves and their institutional contexts.[20] This article uses the evidence of social history to supplement survey data, on the assumption that general aspects of culture, which are widely shared and intergenerationally transmitted, pattern or underlie the public's more specific preferences.[21]

Especially relevant is social historical research on the meaning of the American and British states. This research identifies an important set of enduring understandings that is embedded in each country's institutions and that emanates in particular from the development of each country's poor laws. Both the American and the British poor laws were expressly designed to be perceived by the public in such negative terms that all but the "truly indigent" would be deterred. In Britain, however, general and medical relief were extensively developed between the initial Poor Law of 1601 and the reforms of the nineteenth and early twentieth centuries. With this institutional evolution, the mass public gradually came to be familiar with and to accept state involvement in the provision of material goods and services. The early twentieth century witnessed both a changing public perception of the state and a growing recognition of the benefits of hospital care. By the 1920s and 1930s even the lingering stigma of medical relief did not prevent patients far above the pauper class from increasingly demanding and receiving health care in poor-law facilities.

[20] Lawrence Jacobs and Robert Shapiro, "Public Opinion and the New Social History: Some Lessons for the Study of Public Opinion and Democratic Policy Making," *Social Science History* 13 (Spring 1989); Lawrence Jacobs, "A Social Interpretation of Institutional Change: Public Opinion and Policy Making in the Enactment of the British National Health Service Act of 1946 and the American Medicare Act of 1965" (Ph.D. diss., Columbia University, 1990), chap. 3.

[21] Eckstein (fn. 18).

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Indeed, government facilities provided the bulk of hospital treatment.[22] The result was that the long-standing negative meaning of government provisions gave way to new, more positive understandings, which enabled the state's provision of "large-scale economic aid [to become] conceptually possible."[23]

In the U.S. the poor laws were more limited than in Britain. As a result of the limited, ad hoc development of poor relief, the American public was less aware of the widespread state provision of economic aid. By the twentieth century poor relief was still considered indefensible as a "legitimate, constructive end in itself."[24] Instead, Americans conceived of the state more narrowly in terms of impersonal procedural "guarantees" of political rights: Tocqueville referred to this preoccupation as a type of "paternal love"; Ostrogorski called it "constitutional fetish-worship"; and Hartz later echoed these sentiments in speaking of "America's culture of constitutional worship."[25]

The American preoccupation with the "moral stratosphere" of procedural guarantees "served to divert attention" from government provision of benefits such as retirement pensions and health insurance.[26] Thus, while Britain was expanding state involvement in material provisions during the early 1900s, the U.S. was enacting new laws to require political parties to conduct direct primaries to select their candidates. The passage of the Social Security Act of 1935 represented the initial U.S. experience with extensive state involvement in the widespread provision of material benefits. In the absence of a widespread understanding of government provisions (one that might have developed through an extensive poor-law system), the number and role of American government hospitals never approached that of their British counterparts. Their numbers actually declined during the twentieth century, because there was "little agreement on [their] appropriate role."[27]

[22] Francis B. Smith, *The People's Health, 1830–1900* (New York: Holmes and Meier, 1979); Staudish Meacham, *A Life Apart: The English Working Class, 1890–1914* (Cambridge: Harvard University Press, 1977); Brian Abel-Smith, *Hospitals, 1800–1948* (London: Heinemann, 1964); Ruth Hodgkinson, *The Origins of the National Health Service: The Medical Services of the New Poor Law, 1834–71* (Berkeley: University of California Press, 1967).

[23] Jill Quadagno, *Aging in Early Industrial Society: Work, Family, and Social Policy in Nineteenth-Century England* (New York: Academic Press, 1982), 137–38.

[24] Roy Lubove, *The Struggle for Social Security, 1900–1935* (Cambridge: Harvard University Press, 1968), 106–11.

[25] Alexis de Tocqueville, in J. P. Mayer, ed., *Democracy in America* (New York: Anchor Books, 1969); Moisei Y. Ostrogorski, *Democracy and the Organization of Political Parties*, 2 vols. (London: MacMillan, 1902); Louis Hartz, *The Liberal Tradition in America* (New York: Harcourt Brace Jovanovich, 1955).

[26] Edgar Kemler, *The Deflation of American Ideals: An Ethical Guide for New Dealers* (Seattle: University of Washington Press, 1947), 166.

[27] W. Shonick, "Early Developments and Recent Trends in the Evolution of Local Public

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The enduring meaning associated with the American state patterned the formation of specific public preferences by offering individuals a slim but important cue for organizing their immediate preferences. The danger of divorcing the interpretation of specific individual preferences from that of culture's enduring, more general patterns is illustrated by the way political observers have used polling data since the 1940s to demonstrate unambiguous American support for creating a national health insurance (NHI) program. The focus on individual preferences for the objective of NHI ignores the enduring meaning that Americans have conferred on political institutions, namely, a long-standing (and at times unarticulated) uneasiness regarding the use of government means to provide social welfare.[28]

Partly as an emanation of different American and British historical experiences with poor-law institutions, public understanding of the state's role diverged in those two countries. Whereas in Britain the public had centuries to get accustomed to direct state involvement in health care, in the U.S. the public remained comparatively unfamiliar with this type of direct and extensive state role.

The second, particularly relevant aspect of meaning-centered analysis is that culture has an impact on state capacity and elite negotiating patterns. While Weberians assume that policy discussions on altering state capacity are detached from the broader societal culture, culturalists argue that the knowledge of society's members is necessarily involved in, and directly relevant to, institutional change. Because culture is all-encompassing—controlling the conceptual tools and emotional repertoires of all members of a society—socially constructed values and assumptions even "seep" into policy deliberations that are dominated by elites and seemingly insulated from the mass public. It is not possible, then, for institutions to operate and change in the absence of social actors. Even if state actors concentrate on considerations that seem detached from societal culture, institutional change cannot be divorced from what all members of society know about such institutions.

The impact of culture on specific institutional changes is confirmed by

Hospitals," *Annual Review of Public Health* 5 (1984), 54; Daniel Fox, *Health Policies, Health Politics: The British and American Experience, 1911–1965* (Princeton: Princeton University Press, 1986), 74–77; Charles Rosenberg, "And Heal the Sick," *Journal of Social History* 10 (June 1977), 448; Paul Starr, *The Social Transformation of American Medicine* (New York: Basic Books, 1982), 149–51, 178–80.

[28] Stanley Payne, "Some Opinion Research Principles Developed through Studies of Social Medicine," *Political Opinion Quarterly* 10 (Spring 1946), 93–98; Michael Schiltz, *Public Attitudes toward Social Security, 1935–65* (Washington, D.C.: GPO, 1970); Daniel Hirschfield, *The Lost Reform: The Campaign for Compulsory Health Insurance in the United States* (Cambridge: Harvard University Press, 1970).

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recent quantitative research on the covariation of opinion poll results and policy decisions. Findings from a number of studies suggest that public preferences have significant effects upon American policy-making when they are sustained, of a large magnitude, and focused on a salient issue.[29] In the most comprehensive study, Page and Shapiro demonstrate that policy tends to move in the same direction as opinion changes as often as 90 percent of the time; additional evidence suggests that changes in public preferences *cause* changes in policy.[30]

The analysis of the relevance of the mass public to policy-making has, however, persistently failed to focus on (let alone explain) specific changes in state capacity. The quantitative analysis of polls and authoritative policy decisions represents an important corrective to the tendency among culturalists to exaggerate the causal significance of culture. Thus, although culturalists assume that socially shared meanings and public preferences affect political and institutional outcomes, this is precisely what must be empirically investigated, namely, the specific impact of culture on politics and institutions. For instance, during the formulation of the NHS and Medicare acts, electoral competition and political divisions hindered government responsiveness, leading to a four-year lag between the formation of strong public preferences for health reform and actual policy change. Passage of the two acts was not "inevitable" in the absence of these major political developments.

But even quantitative research neglects the form and content of policy-making, because it requires a level of aggregation that obscures the policy formulation process and the influences on it.[31] As a result, quantitative analysis does not examine the actual impact of culture on the multitude of issues that is addressed *before* any final policy decision is made.[32] In short, culturalists posit the important (but untested) theoretical expectation that public understandings of and preferences about ex-

[29] Benjamin Page and Robert Shapiro, "Effects of Public Opinion on Policy," *American Political Science Review* 77 (March 1983); Robert Shapiro, "The Dynamics of Public Opinion and Public Policy" (Ph.D. diss., University of Chicago, 1982); Robert Erikson, "The Relationship between Public Opinion and State Policy: A New Look at Some Forgotten Data," *American Journal of Political Science* 22 (February 1976); Alan Monroe, "Consistency between Public Preferences and National Policy Decisions," *American Political Quarterly* 7 (January 1979); Robert Weissberg, *Public Opinion and Popular Government* (Englewood Cliffs, N.J.: Prentice-Hall, 1976).

[30] Page and Shapiro (fn. 29) use temporal asymmetries to identify causal priority.

[31] For examples, see Monroe (fn. 29); and Page and Shapiro (fn. 29).

[32] In order to quantify governmental policy decisions, investigation of the relationship between public preferences and policy-making has counted either the votes of legislators or the overall vote or decision of a collective political institution (e.g., congressional passage of a bill). The problem, though, is that by aggregating multiple policy decisions, this research has ignored the decisions of policymakers during the "prevote" stage.

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isting institutions are a primary determinant of specific changes in state capacity.

Moreover, culturalists imply that the negotiations of state actors with powerful interest groups cannot simply be expressive of self-evident administrative capacity. Because state actors rely on culture to render their environment intelligible, they cannot construct "objective" accounts of institutions. This means that negotiating relationships cannot merely reflect the technical capacity of institutions. Rather, decisions made by state actors in their bargaining with interest groups are conditioned by prevailing understandings and preferences. Culture is the medium for (and therefore an influence upon) the way state actors assess the demands of interest groups.

At the same time, culturalists' analysis of interest group pressure neglects policy networks and the strategic calculations of state actors. As the Weberians emphasize, state actors have the potential to define and pursue distinctive policies autonomously. Thus, culturalists again posit an important (but largely untested) theoretical expectation: that public preferences and enduring cultural patterns will affect the state's autonomy in the face of interest group pressures. When the claims of interest groups confront strong public preferences and understandings, they are unlikely to be influential; by contrast, interest groups are more likely to win government concessions when public preferences and understandings are relatively unformed or potentially supportive of appeals put forth by pressure groups. In short, culturalists expect the mass public to be a primary influence on detailed policy-making and elite negotiations with powerful interest groups.

II. Formulation of the NHS and Medicare Acts

The NHS and Medicare acts were formulated in central states whose administrative capacities are often portrayed as weak in comparison with those of continental European countries. The American and British states, that is, are not considered to be up to the task of providing coherent, detailed intervention in domestic affairs.[33] Consistent with this general pattern of administrative weakness, both the NHS and the Medicare acts were designed in policy-making institutions that lacked strong hierarchical organization. Authority for the formulation of Medicare was dispersed among and within the lawmaking branches. Instead of dictating policy, the president and the Department of Health, Education, and

[33] Almond and Powell (fn. 4); Hugh Heclo, *Modern Social Politics in Britain and Sweden* (New Haven: Yale University Press, 1974); Skowronek (fn. 8); Orloff and Skocpol (fn. 8).

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Welfare (HEW) were generally left to provide encouragement and technical assistance to a decentralized legislative branch and, in particular, to finance committees in the Senate and, especially, the House. Although the British state enjoyed—in formal terms—hierarchical control through the prime minister's office, authority for the formulation of the NHS was dispersed among a number of offices within the executive branch. Major decisions were made *prior to* legislative consideration, but the prime minister could not dominate the deliberations of the Ministry of Health (MH), the cabinet, or the cabinet's unusually active committees.

The development of specialization did, however, enhance (to differing degrees) each state's capacity in the area of health policy. In the U.S. policy discussions drew at least initially from an isolated area of strength—the Social Security Administration and its expert, experienced, and committed staff of civil servants.[34] British capacity was enhanced because of the expertise of the department's medical officers and because the development of the NHI contributed to the Ministry of Health's (MH) "policy learning." Given its longer experience with health policy and its stronger position in cabinet-centered government, the British state had a more extensive institutional capacity than the American state.

During the formulation of health policy in each country, a number of politicians and bureaucrats in positions of authority assessed their prevailing institutional and political environments. The relevant state actors during the formulation of Medicare were the president, critical members of Congress, and officials in HEW. The important state actors in Britain were officials in the Ministry of Health, as well as elected politicians who were active as cabinet members and department heads. The active intervention of politicians provided the critical thrust for pursuing major new policy objectives. Under Britain's wartime Coalition government of the Labor and Conservative parties (spring 1940–May 1945) and under the Democratically controlled White House (November 1960–November 1964), politicians pursued health care reform only to be met by political deadlock. After the landslide electoral victories of the Labor Party in July 1945 and of Lyndon Johnson in November 1964, politicians pushed for bold initiatives and quickly enacted new legislation—NHS became law in November 1946 and Medicare in July 1965. In analyzing health policy formulation, this section will explore the impact of culture on two aspects of decision making: the autonomy of state actors as they formulated basic

[34] Martha Derthick, *Policymaking for Social Security* (Washington, D.C.: Brookings Institution, 1979).

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principles and the specific changes state actors made in administrative capacity.

A. State Autonomy and Basic Principles

American and British health policy emerged from policy networks that organized continuous bargaining between relevant state actors and interest groups representing powerful health care producers, namely, national organizations of doctors and hospitals (i.e., the American Medical Association [AMA], the American Hospital Association [AHA], and their British counterparts). The NHS was the subject of nearly four years of organized discussions between leading interest groups and the Ministry of Health (MH), and Medicare was formulated within a network that brought health care producers into congressional deliberations. The organized incorporation of producer groups, though, did not prevent state actors from trying to protect their jurisdictional prerogative to make ultimate decisions. Neither the Medicare Act nor the NHS Act was simply a by-product of competition among interest groups. The views of medical groups were certainly solicited and considered, but policymakers defied even fierce opposition in order to pursue their own calculations concerning their careers and the interests of the nation. The challenge facing American and British policymakers was to pursue autonomous goals without prompting producer groups to "strike" by withdrawing their services.

The central question in analyzing the formulation of basic principles (such as the degree to which services and the population would be covered) is then the following: to what extent, and under what conditions, did state actors assert their independence from medical interest groups? For Weberians, on the one hand, the state's autonomy is a function of its administrative capacity; that is, the moderately weak American state should generally exercise minimal independence, establishing a relationship with producer groups that is characterized by cooperation and concessions to private interests. Culturalists, on the other hand, expect that state autonomy should vary according to policymakers' perceptions of public preferences and understanding; that is, the sensitivity of policymakers to strong and weak public sentiment is inversely related to the influence of interest groups.

Weak Interest Group Influence

In the U.S. the issue of how to finance a new health care program provoked intense disagreement. Polling data prior to the passage of Medicare indicate strong, sustained public preference for using the well-

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known Social Security system to finance health care for the elderly. Published surveys confirm Louis Harris's report to President Kennedy that "putting [the health care costs of the elderly] under Social Security is indeed a popular issue . . . in every State we have surveyed in 1961."[35] The poor-law arrangement of financing care through the government's general revenues and restricting access by using a means test was detested because it was "inimical to self-esteem" and was believed to encourage laziness.[36]

During the debate over the basic principle of using the insurance mechanism of Social Security to finance Medicare, persistent and strong protests by leading interest groups had little influence on policymakers. The AMA and other groups erroneously claimed that the public supported their position of restricting state involvement to the poor-law arrangements created by the Kerr-Mills program in 1960.

The Kennedy and Johnson administrations, joined by influential members of Congress, arrived at a different interpretation of public sentiment—one that led them to dismiss interest group arguments. Their positions were consistent with polling data and with the uniformly negative meaning attached to poor-law arrangements: policymakers explained that proposing new welfare legislation that would require beneficiaries to "submi[t] to the humiliation of a test of need" would alienate public support.[37] Recognizing that it was impossible to "sell . . . welfare as your number one political objective," President Kennedy and other senior officials insisted that "the introduction of a means or income test . . . is not in the area of acceptable compromises."[38]

As an alternative to the negatively perceived Kerr-Mills approach, policymakers relied on the insurance mechanism, because they were con-

[35] Louis Harris, "A Study of the Primary Outlook in South Carolina," December 1961, RFK Papers, Attorney General's Correspondence, Box 15, Kennedy Library, Boston; Schiltz (fn. 28), 140, 170, 194–95; Hazel Erskine, "The Polls: Health Insurance," *Public Opinion Quarterly* 39 (Spring 1975), 134.

[36] By the early 1960s polls had been tracking public attitudes toward government financing of the medical expenses of the poor for nearly thirty years; the first poll conducted following the passage of the Kerr-Mills program (1960) for providing medical relief recorded the lowest percentage of approval *and* the highest rate of disapproval for government financing of health care for the poor. See Schiltz (fn. 28), 128, 158.

[37] Wilbur Cohen to President Kennedy, May 10, 1963, POF, Box 79A Kennedy Library, Boston; Al Ullman (committee member), Statement, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 340–41; Wilbur Cohen to President Johnson, "Congressmen Herlong and Curtis' 'Eldercare Act of 1965,' " February 25, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin.

[38] Wilbur Cohen, interview with author, Austin, April 1, 1987; Anthony Celebrezze (secretary, HEW), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 2–3; "Suggested Opening Statement by the President for Next Press Conference," June 12, 1962, T. Sorenson Papers, Box 36, Kennedy Library, Boston; Cohen (fn. 37, May 10, 1963).

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vinced that the "American people have accepted [it] . . . overwhelmingly and enthusiastically."[39] Their decisions reflected polling data on public preferences and wide public understanding of the Social Security system. State actors defied strong opposition from interest groups and designed Medicare as an "extension" of this popular and familiar insurance program, out of a conviction that the principle of establishing "eligibility and entitlement for all, regardless of income" would have wide appeal.[40]

In Britain state actors and interest groups disagreed about whether the health services should be available to the entire population. A series of governmental and published polls reported a strong public preference for universal coverage. Thus, a December 1942 Gallup survey found that 88 percent favored the Beveridge Report's proposal to extend the services of doctors and hospitals to all; even among the wealthy, who had the greatest reservations, 81 percent favored this reform.[41] The principle of establishing the "[s]ame chance of good treatment for all, rich and poor" was among the most popular elements of the reform proposals published by the Coalition and Labor governments.[42]

In an attempt to protect the tradition of private practice, the British Medical Association (BMA) persistently argued during the formulation of the NHS Act that access to the new service should be limited to those below a certain income level. Policymakers, however, defied the BMA. Pointing to "public opinion on this decision of the Government," they argued that "most people are glad to see the Government . . . mak[ing health services] available to all people."[43] In addition to stressing the popularity of universal coverage, politicians and officials anticipated that the public would have a strong negative reaction to administrative arrangements that tested the financial means of patients. They emphasized that

[39] Wilbur Cohen, Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 93.

[40] Wilbur Cohen (fn. 38); K. Gordon (director, BOB), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 802–3; Celebrezze (fn. 38), 2–3; President Kennedy to president of the Senate, February 13, 1961, M. Feldman Papers, Box 27, Kennedy Library, Boston; Reginald G. Conley (HEW) to Fred Hayes (Housing and Home Finance Agency), December 1962, DHEW Microfilm, Roll 25, Kennedy Library, Boston.

[41] British Institute of Public Opinion, *The Beveridge Report and the Public* (London: British Institute of Public Opinion, 1943), 4, 8.

[42] Ministry of Information (MOI), "Home Intelligence Special Report: Public Reaction to the White Paper on a National Health Service," March 14, 1944, Public Record Office (PRO), INF 1/293; Mass Observation Archive (MO), "Interim Report on Feelings about a State Medical Service," September 27, 1943, FR 1921; "Report on Public Attitudes to State Medicine," October 8, 1943, MO, FR 1921, 43–56; George Gallup, ed., *The Gallup International Public Opinion Polls, Great Britain 1937–75* (New York: Random House, 1976), 130–31.

[43] Henry Willink to Member of Parliament Cobb, November 11, 1944, PRO, MH 80/27; Minutes, first meeting with small committee of the medical profession, May 24, 1943, PRO, MH 80/26; "Universality" (probably written during the winter of 1943–44), PRO, MH 80/27.

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introducing a means test "marks the service . . . as one for the working classes and not a first-rate affair";[44] the service would "inevitably be regarded as something provided cheaply for the lower classes only, and not good enough for the well-to-do."[45] Consistent with the public's strong preferences and its evolving expectation of ready access to government health care, the Coalition and Labor governments insisted on the principle of "universal coverage so that everyone would be eligible."[46] In short, the influence of interest groups was weak in terms of salient issues that enjoyed strong public support; on policy questions relating to financing Medicare and to the NHS's universal coverage, policymakers readily dismissed even fierce pressure from interest groups.[47]

STRONG INTEREST GROUP INFLUENCE

Medical producer groups, however, were able to exert significant influence when the public was seen as apathetic or as potentially supportive of the demands put forth by interest groups. Under these conditions, policymakers (even under reformist governments) were willing to reach compromises that addressed the concerns of those interest groups. The issue of Medicare's coverage of services was intensely debated within the American policy network: should benefits be limited to hospitalization or extended to comprehensive protection that included the services of doctors?

Given the comparative unfamiliarity of Americans with central state involvement in social welfare, Medicare was formulated in an atmosphere of long-standing public unease toward state intervention. This general cultural pattern was echoed in a private poll in Kennedy's files. It reported that "on balance, most prople . . . want something done [about the health care needs of the elderly, but] they have doubts . . . about the method [of government involvement]."[48]

Administration officials and members of Congress expressed some

[44] John Maude to minister of health, "NHS: Private Treatment by Doctors in the Public Service," September 7, 1943, PRO, MH 80/26; J. Maude, "Appendix II: Note on a General Practice Service," January 28, 1943, PRO, MH 80/25.

[45] "Universality" (fn. 43).

[46] Sir George Godber, interview with author, Cambridge, England, December 13, 1986.

[47] The weakness of major interest groups in the face of popularly embraced principles seems consistent with the findings of Page, Shapiro, and Dempsey. They suggest that the transmission of interest group claims via television news has a negative effect on public opinion, pushing it in the opposite direction. Faced with this negative response to interest groups, policymakers can be expected not to accord much weight to interest group views in cases of salient issues. Benjamin Page, Robert Shapiro, and Glenn Dempsey, "What Moves Public Opinion," *American Political Science Review* 81 (March 1987).

[48] John Kraft, "A Study of Attitudes in North Dakota," April 1963, POF, Box 104, Kennedy Library, Boston.

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support for financing comprehensive care. Thus, offices within both the Bureau of the Budget (BOB) and HEW pushed for an insurance program that covered "comprehensive medical care" because it could save money by encouraging basic care outside of a hospital.[49]

In the context of American ambivalence toward the state, however, policymakers were sensitive to the charges of interest groups that Medicare would trample on the "traditional" or "constitutional American way" by creating "a Government-controlled and compulsory system."[50] Convinced that "control follows money when the Government steps in," the AMA in particular was highly critical of Medicare for threatening to continue control of hospitals, doctors, and patients and to introduce "production lines of disinterested physicians."[51] The catchphrase "socialized medicine" was viewed by the AMA as a "big help in prejudicing the public" to equate Medicare with excessive state interference.[52]

Recognizing that the public might be potentially supportive of AMA objections, administration and congressional officials acknowledged that "enter[ing] into the 'doctor-patient' arena" would "get [the government] . . . into the touchy doctor area" and provoke a "massive fight."[53] To blunt the potential appeal of the warnings issued by interest groups, Medicare advocates concentrated on "mak[ing] the AMA opposition less relevant" by limiting the coverage offered by the new program.[54] Thus, policymakers restricted the program to "basic hospital coverage" because it would preserve the independence of doctors from state "control."[55]

[49] Labor and Welfare Division of director of the BOB, January 22, 1961, DHEW Microfilm, Roll 24, and Meyer Feldman Papers (Box 27), Kennedy Library, Boston; Memo to Abraham Ribicoff, "Public Health Service: Recommendations for Legislation for Health Benefits for Aged Persons," December 28, 1960, DHEW Microfilm, Roll 24, Kennedy Library, Boston.

[50] Dr. Leonard Larson (AMA) and Dr. Edward Annis (AMA), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR 4222*, 87th Cong., 1st sess., 1961, 1302–3, 1308–9, 1439; John Byrnes and Bruce Alger (committee members), Statements, U.S. Congress, House Ways and Means Committee, *Hearings on HR 4222*, 87th Cong., 1st sess., 1961, 1818, 1824.

[51] Dr. Edward Annis (AMA), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR 3920*, 88th Cong., 1st sess., 1963, 652–53; Dr. Frank Groner (AHA), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR 4222*, 87th Cong., 1st sess., 1961, 250; Thomas Curtis (committee member), Statement, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1961, 404–6.

[52] Richard Harris, *A Sacred Trust* (New York: New American Library, 1966), 126–28; Curtis (fn. 51), 404–6; Dr. Ernest Howard (AMA), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR 4222*, 87th Cong., 1st sess., 1961, 1436.

[53] Philip Hughes (assistant director for legislative reference, BOB) to Bill Moyers, May 18, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin.

[54] Robert Ball to Sidney Saperstein, "Health Insurance Benefits," January 16, 1961, DHEW Microfilm, Roll 24, Kennedy Library, Boston.

[55] Celebrezze (fn. 38), 8–9; Robert Ball (commissioner of Social Security, HEW), Testimony, U.S. Congress, House Ways and Means Committee, *Hearing on HR1*, 89th Cong., 1st sess., 1965, 46–47; Wilbur Mills (committee chairman), Statement, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 70–71; Wilbur Cohen

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Moreover, state actors further capitulated to the AMA by narrowing Medicare's scope to exclude the services performed within the hospital by private doctors, namely, radiologists, anesthetists, pathologists, and physiatrists (known collectively as RAPPs). Even though the exclusion of RAPPs threatened to "reduce the hospital element to a nursing home with an operating room," members of Congress in particular were "totally adamant" about distancing Medicare from doctors' services and about giving any appearance of state domination.[56]

In Britain both the Coalition and Labor governments fiercely debated whether to continue private practice in the new government-financed and operated health service. A critical influence on the decision to continue private practice was the perception that the British public was apathetic about this issue or even potentially receptive to warnings issued by interest groups about the dangers of massive state expansion. Although the poor laws and the social insurance programs of the twentieth century had familiarized the public with government provision of social welfare, there were lingering fears that state expansion would create red tape and introduce a "civil servant mentality" among doctors, who would come to act like "automatons."[57]

Attempting to exploit lingering public anxiety over the state's growing role, the BMA insisted that doctors retain the "free right" to continue to practice privately. MH officials recognized that the medical profession's position was a reaction to "finding themselves under much closer control" and to a "vague sense of the 'civil service' bogey." The BMA attempted to use the public's anxiety to express their own fear that "all the individuality of the doctor's professional work will be throttled with regulations and controls."[58]

(HEW), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR1*, 89th Cong., 1st sess., 1965, 68–70, 102–3.

[56] Groner (fn. 51), 256–57; Wilbur Cohen to HEW secretary, February 3, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin; Wilbur Cohen to O'Brien, March 16, 1965, March 17, 1965, July 19, 1965, and July 20, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin; Lawrence O'Brien to President Johnson, March 17, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin; Wilbur Cohen to President Johnson, "Summary of Major Provisions of Social Security Amendments of 1965," March 19, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin; Wilbur Cohen to Claude Desautels, July 12, 1965, Ex LE, Box 4, Johnson Library, Austin; Senator Clinton P. Anderson to President Johnson, July 21, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin; Hughes (fn. 53); Ralph Mueller (Executive Office of the President, President's Committee on Consumer Interests) to Esther Peterson, May 5, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin.

[57] "Report on Public Attitudes to State Medicine" (fn. 42), 69–71.

[58] Memo to secretary of state of Scotland, "NHS," June 1943, PRO, MH 80/26; John Hawton, "NHS: Summary of Main Happenings of the Year," November 1943, PRO, MH 80/26; Maude (fn. 44, "Appendix II"); PRO, MH 80/25; "National Medical Service: Whole-Time v. Part-Time Service," March 1943, PRO, MH 77/26.

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MH officials, though, had major reservations about making concessions to appease the doctors; they were concerned in particular about the impact on the public of allowing doctors to work simultaneously in the new service and in private practice. MH officials argued that continuing to allow doctors to "run private and public practice side by side" would "keep alive the . . . notion that doctors give better professional service to their private patients" and that "the public service . . . [is] something provided for the poorer classes."[59] The result, it was predicted, was that the government would "ruin any chance . . . of gradually getting the bulk of the population to look on the NHS as the first-line medical service for all, . . . and not as something to be faintly ashamed of using, socially."[60]

In spite of their reservations, however, MH officials recognized that the BMA's fierce opposition to interference with its "freedom" to practice privately could dampen public support for a new service and prompt the "best and most efficient doctors" to refuse to join the new service.[61] Thus, policymakers in both the Coalition and the Labor government made a series of concessions that allowed for the continuation of private practice. Discarding its long-standing socialist commitment to eliminating private practice, Labor decided to require government-owned hospitals to set aside "pay-beds."[62]

The influence of medical producers on the basic principles of the NHS and Medicare acts modifies Weberian conceptions of state autonomy. While some Weberians recognize that state autonomy from interest group pressure may vary within one national state,[63] this article suggests variation within a single policy area. Thus, evidence that medical producers simultaneously exert both strong *and* weak influence challenges attempts to categorize state autonomy monolithically in terms of either an entire state or a single policy area. Moreover, the degree of state autonomy is not simply a function of its administrative capacity; the way state actors balanced public sentiment and interest group claims produced complex negotiating patterns that were not directly tied to the state's organizational structure. The extent to which the state's continu-

[59] "National Medical Service" (fn. 58); John Hawton, Memo on attitudes of doctors, March 5, 1943, PRO, MH 80/25; John Maude to G. H. Henderson, April 12, 1943, PRO, MH 80/25.

[60] N. F. McNicol, "GP Service: Some Argumentative Points," February 26, 1943, PRO, MH 80/31; "National Medical Service" (fn. 58); Maude (fn. 44, "NHS").

[61] Minutes of Reconstruction Committee meeting, January 11, 1944, R (44), 4th, PRO, CAB 87/5.

[62] Minutes of meeting with representatives of the BMA, May 13, 1946, NHS (46) 30, PRO, MH 80/32; "The Minister's Proposals for a NHS: The [BMA] Negotiating Committee's Observations," probably mid-January 1946, PRO, MH 80/32.

[63] E.g., see Skocpol and Finegold (fn. 10).

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ous interaction with health care producers translated into actual influence varied according to policymakers' perceptions of public preferences and understandings. Contrary to Weberian expectations, moderately weak administrative capacity was associated with high state autonomy on specific policy issues.

B. State Capacity and Administrative Arrangements

Policy discussions regarding the design of administrative arrangements for the Medicare and NHS acts concentrated on altering the state's specialization in and hierarchical control over health care. According to Weberians, technical administrative attributes are the focus and primary determinant of decisions involving changes in existing state institutions: existing capacity is expected to prefigure the specific direction of institutional change. In the U.S. the state's moderately weak administrative resources in the area of health policy should be expected to produce new administrative arrangements characterized by weak hierarchical control and low specialization; in Britain the state's relatively greater capacity should be reflected in stronger administrative arrangements. Culturalists, by contrast, hold that public perceptions and understandings should dominate policy discussions and account for policy decisions. These contending theoretical expectations are examined in the context of detailed discussions in the U.S. and Britain regarding the degree of central state hierarchical control over hospital care.

ADMINISTRATIVE ARRANGEMENTS FOR BRITISH HOSPITAL CARE

In Britain there was a major debate over whether and to what extent the new service ought to establish a firmly ordered system of central authority over the country's two main systems of hospital care—its government facilities and its voluntary hospitals. The new social understanding of the state, which had evolved gradually over the course of centuries of social interaction with government institutions, was echoed in the polling data. Polls suggested that the British public persistently favored a "state-run medical service,"[64] specifically, the proposal that voluntary hospitals "should be taken over completely by the state."[65] The voluntary hospitals

[64] A June 1943 Gallup poll reported that 70% felt that a "state-run medical service would . . . be beneficial for the nation"; in a July 1944 poll of public preferences for two alternatives, 55% favored "a publicly run national health service," while only 32% preferred leaving health care arrangements "as they are." Gallup (fn. 42), 77, 92; "Public Attitudes to State Medicine" (fn. 42), 29.

[65] Ministry of Information (fn. 42). In a July 1944 Gallup poll, 42% felt that voluntary hospitals should be taken over by a government body; 21% preferred to see them become part voluntary and part government, while another 21% favored keeping them entirely voluntary. Gallup (fn. 42), 93.

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were resented in part because of their unrelenting pleas for donations: the public "loathe[d] being pestered to buy flags in support of hospitals."[66]

The Coalition government discussed hospital policy on the assumption that it was necessary "to do all that is possible to preserve the independence and autonomy of voluntary hospitals."[67] To preserve the two existing systems, policymakers proposed "bring[ing] voluntary hospitals and the local authority hospital into a single system" that would be operated by new regional health authorities.[68] These new regional bodies would combine existing local governmental units and would be given financial responsibility for both private and public hospitals. Under this "compromise arrangement," the government's hierarchical control over hospitals would be marginally improved because all hospitals would be under government (albeit local) authority.

Representatives of the voluntary hospitals, though, strongly opposed these regional health authorities because control over reimbursement was too decentralized. It was feared that making hospitals rate-aided (i.e., dependent on local government financing) would cause the public to consider private facilities as a poor-law service. Thus, representatives of voluntary hospitals complained of the "psychological effect" of creating the "impression with the public that the hospitals were to be 'carried' by public funds according to need." Emphasizing the importance of "avoid[ing] direct payment from *a* local authority to *a* voluntary hospital,"[69] they explained that "there was all the difference in the world between the private person's knowledge that a hospital was 'State-aided' and his knowledge that it was 'rate-aided.' " Instead, the hospitals insisted on centralizing control over reimbursement to their facilities: they proposed that the government "establish [private hospitals] as a . . . centrally paid service, [and government hospitals] as a local one."[70] Drawing on the new, gradually evolving social understanding of the state, the proposal made by the voluntary hospitals was intended simultaneously to distance its facilities from the stigma of local authority provisions and to reestablish its care as "respectable."

Under the Coalition government, however, officials and politicians were led by their perception of public sentiment to reject the voluntary

[66] MO, TC, Health, Box 1, File M.
[67] "The White Paper Scheme," February 10, 1944, PRO, MH 80/27.
[68] John Pater, interview with author, Croydon, England, December 16, 1986.
[69] Hawton (fn. 58); Letter from J. P. Wetenhall, November 8, 1944, PRO, MH 80/32.
[70] Minister to J. P. Wetenhall, probably January or early February 1944, PRO, MH 80/34; minutes of meeting with voluntary hospital representatives, October 5, 1944, NHS (44) 13, and October 17, 1944, NHS (44) 15, PRO, MH 77/30B.

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hospitals' argument for greater hierarchical control over reimbursement. In particular, the Ministry of Health resisted the demand on the part of voluntary hospitals that they be singled our for central government reimbursement. The ministry argued that singling out the voluntary hospitals for hierarchically organized reimbursement arrangements would continue the old administrative system of local authorities funding only municipal hospitals and would reinforce prevailing cultural patterns that identified municipal hospitals as poor-law institutions. Convinced that the proposals would result in a "distinction in people's minds between two separate hospital systems," the Coalition government rejected the hospitals' pleas.[71]

Following its 1945 electoral landslide, the Labor government overturned the Coalition's decision to preserve the private hospital system. In spite of interest group opposition and divisions within the cabinet, Labor decided to "take over" the ownership of voluntary and local authority hospitals and to establish central state control over all hospitals.[72] Public preferences and socially shared meanings were a central influence on this pivotal decision.

Cabinet ministers and bureaucratic officials were attracted by the popularity, evidenced in the polling data, of nationalization as a "bold scheme . . . [that] would have the backing of Government supporters throughout the country." They were also responsive to public preferences and understandings concerning local authorities and voluntary hospitals.[73] Breaking with wartime perceptions, policymakers accurately recognized that there was widespread resentment of the voluntary hospitals' continual fund-raising campaigns (which were viewed as a form of "begging") and that local authority hospitals were detested because they were "still run . . . in the general surroundings and atmosphere of the poor law system."[74] This perception was consistent with polls as well as with the enduring negative meaning associated with the provision of services by local government. By 1946 senior policymakers concluded that the "time ha[d] come to leave [the two-track hospital system] behind": establishing hierarchical control over hospital care was seen as a "clean-cut solution" consistent with public sentiment.[75]

[71] Minutes (fn. 70, October 5, 1944).

[72] Aneurin Bevan, "NHS: The Future of the Hospital Services," October 5, 1945, PRO, CAB 129/3, CP (45) 205; Godber (fn. 46).

[73] "Reform of the Voluntary Hospital System," probably late summer 1945, PRO, MH 80/34; "NHS—Hospital Scheme," August 1945, PRO, MH 80/29; minutes of cabinet meeting, October 18, 1945, CM (45) 43d, PRO, CAB 128/1.

[74] Bevan (fn. 72); Bevan, "NHS: The Hospital Services," October 16, 1945, CP (45) 231, PRO, CAB 129/3.

[75] Bevan (fn. 72); "NHS: Meeting with the Representatives of the Voluntary Hospitals," February 11, 1946, NHS (46) 23, PRO, MH 80/30; "NHS—Hospital Scheme" (fn. 73).

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In short, the outcome of British policy discussions (greater hierarchical control over hospital care) was in part consistent with Weberian expectations. This case, however, suggests that the Weberians misspecify the causal argument for specific changes in state capacity: detailed policy discussions focused on and were determined by public preferences and understandings. Thus, the policy shift from a Coalition to a Labor government did not stem from a reassessment of existing administrative capacity. Rather, it resulted from a new and more conclusive assessment of both the public's explicit preferences for bold reform and the enduring negative meanings attached to any continuation of local authority hospital services. Central state involvement seemed a necessary and desirable alternative.

ADMINISTRATIVE ARRANGEMENTS FOR MEDICARE'S HOSPITAL CARE

Polls conducted for Kennedy and Johnson suggest that Medicare enjoyed widespread support during the period of health policy formulation. As Louis Harris reported, it was "hot."[76] Bureaucrats and politicians believed that the challenge before them was to design new administrative arrangements that were responsive to the strong public preference for expanding the state's role in financing hospital care without arousing uneasiness over state interference. Their solution was deliberately to avoid hierarchical control over the cost and quality of care provided under the new program.

In January 1961 the recently elected Kennedy administration pulled together the Medicare proposal it would send to Congress. During this critical period, the BOB outlined the consequences of establishing a new government program and argued strenuously for direct and strong central state control over the disbursement of the program's funds. Senior BOB administrators emphasized to the White House and President Kennedy that the "development of strong Federal administrative organization" was critical to ensuring that "the new program . . . [does] not contribute to further inflation of medical costs." The BOB and other experts were convinced that "direct Federal administration" could be implemented partly by drawing on procedures that Blue Cross agencies had

[76] "Trends of Public Opinion on Kennedy Administration," February–December 1961, RFK files, Attorney General's Correspondence, Box 15, Kennedy Library, Boston; "Notes for Congressional Sessions," January 17, 1962 (typed in upper corner, "TCS"), POF, Box 50, Kennedy Library, Boston; Louis Harris, "A Study of the Gubernatorial and Senate Elections in California, Wave II," December 1961, POF, Box 105, Kennedy Library, Boston; Oliver Quayle, "Surveys of Public Opinion in New York, California, Oklahoma, Ohio, Indiana, Maryland," April 1964, CF PR16, Box 80, Johnson Library, Austin. For a more extensive discussion of these presidential polls, see Jacobs (fn. 20). Gallup polls confirmed these findings; see Schlitz (fn. 28), 140, 170; and Erskine (fn. 35), 134.

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already designed. Moreover, these advocates of hierarchical control warned that compared with the government's organizational capacity, institutions outside of Washington "may not be strong from an administrative standpoint and may not be as responsive or desirable for a program where . . . the costs are to be paid by the Federal Government."[77] There was, then, strong confidence in the state's administrative capacity.

These technical considerations for establishing hierarchical control through "direct Federal administration" were disregarded by politicians and officials, however. Instead, policymakers agreed that gaining public acceptance for a government health insurance plan made it necessary to avoid the perception of "state control" and to blunt the AMA's warnings about "socialized medicine." Policymakers decided to create an "intermediary between [hospitals] and the Federal Government" by decentralizing reimbursement and relying on familiar private agencies such as Blue Cross.[78] HEW and White House officials argued convincingly that establishing this "buffer" between the state and health care delivery would create "early public relations advantages [which] might outweigh some of the basic advantages of greater speed, flexibility and control which come from a direct-line operation."[79] The White House as well as influential members of Congress supported the use of "a Blue Cross type private agency [because it] would remove 'government control' fears" and would defuse the "widespread and vocal concern" about the possibility of Government interference.[80]

Repeated high-level warnings had made amply clear to state actors that dispersing HEW's "administrative . . . responsibilities" by using Blue Cross agencies would begin an "irreversible" process of rapid cost escalation that would result in "a more costly and less satisfactory service." But policymakers were simply more concerned with catering to the public's perception of the state than with addressing the consequences of weak administrative arrangements that failed to establish hierarchical control. The abiding American ambivalence toward direct state provi-

[77] David Bell to Theodore Sorenson and Meyer Feldman, January 24, 1961, M. Feldman Papers, Box 27, Kennedy Library, Boston; Anthony Celebrezze (secretary, HEW), Testimony, U.S. Congress, House Ways and Means Committee, *Hearings on HR 3920*, 88th Cong., 1st sess., 1963, 162; "Reasons Pro and Con of the Use of Private Health Insurance Agencies in the Administration of a Health Insurance Program," January 4, 1961, DHEW Microfilm, Roll 24, Kennedy Library, Boston; Labor and Welfare Division (fn. 49).

[78] Mills (fn. 55), 287; Celebrezze (fn. 38), 7; Wilbur Cohen to Lawrence O'Brien, March 11, 1965, Ex LE/IS1, Box 75, Johnson Library, Austin.

[79] Ball (fn. 54).

[80] M. Mantos to Lawrence O'Brien, September 15, 1964, Mantos File, Box 9, Johnson Library, Austin; Abraham Ribicoff to President Kennedy, June 2, 1962, POF, Box 79A, and T. Sorenson Papers, Box 36, Kennedy Library, Boston; Wilbur Cohen to Hirst Sutton, January 7, 1962, DHEW Microfilm, Roll 24, Kennedy Library, Boston.

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sions made it seem inconceivable that Medicare would introduce the capacity for the "Federal Government itself [to] . . . directly administer . . . hospitals." Instead, Presidents Kennedy and Johnson, as well as members of Congress, insisted on decentralized arrangements that would allow them to argue that there were protections against "government meddling," "control," and "interference" in hospital care.[81]

In short, the outcome of American policy discussions (low hierarchical control) is in part consistent with Weberian expectations for the evolution of administrative capacity in a weak state. This case nevertheless suggests that the Weberian misspecify the causal argument for institutional change: the detailed policy discussions on organizing new reimbursement arrangements focused on and were determined by public sentiment—the enduring ambivalence toward the state and familiarity with the established role of private agencies.

Moreover, in important respects the Medicare case contradicts Weberian expectations. Thus, the confidence of senior administrators in their capacity to implement a massive new program and their aggressive campaign for "direct federal administration" were not a sustained focus of policy discussion. Their technical judgment failed to create serious pressure for introducing a higher degree of hierarchical control. The Medicare case, then, is characterized by the coexistence of strong confidence in state capacity and institutional changes that established weak administrative arrangements. This case also presents important counterevidence in terms of the overall expansion (rather than the specific changes) produced by new institutions. Polling evidence of strong support for Medicare as well as growing acceptance of Social Security (which had managed to circumvent the general American ambivalence toward the state) compelled policymakers to expand the scope of government involvement in health care significantly.[82] Although the extent of future cost escalation was unanticipated, the original act was nonetheless intended to be a historic enlargement of both the state's area of responsibility (i.e., expanding access to health care) and its budgetary commit-

[81] Hughes (fn. 53); Mueller (fn. 56); Samuel Standard (professor of clinical surgery, NYU College of Medicine) to Adam Molinsky (Robert Kennedy aide), April 7, 1965, RFK Papers, Senate Legislation, Box 69, Kennedy Library, Boston.

[82] The Medicare Act initiated an unparalleled postwar expansion of government involvement in health care. Whether measured in terms of budgetary expenditures, services provided, or population covered, the development of American health policy has been—with the exception of Social Security retirement pensions—unprecedented in comparison with other areas of social welfare. See Victor Rodwin, *The Health Planning Predicament* (Berkeley: University of California Press, 1984); Jean de Kervasdoue, John Kimberly, and Victor Rodwin, *The End of an Illusion: The Future of Health Policy in Western Industrialized Nations* (Berkeley: University of California Press, 1984).

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ment to meeting this objective. As one prominent policymaker concluded, establishment of the Medicare program for twenty million Americans represented the largest single government operation since D day.[83] In this respect, public demand for reform actually overcame the historic weakness of the American state.

III. Conclusion

Diverse traditions of empirical research on liberal democracies concur that the role of the mass public in detailed policy-making is and ought to be sharply limited. Weberians demonstrate this orientation by their focus on elites and on their relatively free rein in determining detailed policy decisions, which are primarily the product of the way state actors assess administrative capacity. Clearly, Weberians have helped shift the study of politics from the system's "required" functions toward the evolution of specific institutional change and the potential of state actors to design and pursue distinctive policies.

The Medicare and NHS cases suggest, however, that the Weberians' causal argument for institutional change is both misspecified and contradicted by important developments. The state's "objective" administrative capacity is the primary focus and determinant in Weberian analysis: state autonomy from interest groups is presented as a function of capacity, and existing administrative resources are expected to prefigure new institutional changes. American and British health policies suggest, though, that state actors' perceptions of public preferences and understandings account for the variations in state autonomy. Even with administrative resources uniform in a single policy area, state capacity still cannot account for why the influence of medical groups is sometimes weak and why it is sometimes strong.

In addition, the dramatic differences in the language and decisions of American and British policymakers as they considered detailed changes in state capacity stemmed from important variations in public preferences and enduring cultural patterns. Constrained by their public's comparative unfamiliarity with state provisions and by its preferences for doing little more than extending the established Social Security system, American policymakers were reticent state builders. Even as a major new role for the government was forged, American politicians and officials repeatedly compromised Medicare's hierarchical organization in order to minimize direct state control. As a result, the American state, on

[83] Wilbur Cohen, quoted in Sheri David, *With Dignity: The Search for Medicare and Medicaid* (Westport, Conn.: Greenwood Press, 1985), 143.

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the one hand, was limited to a strict reliance on the established insurance approach to supplement nonstate arrangements for providing and financing health care. In Britain, on the other hand, officials were able to draw on public familiarity with state provision of social welfare and on strong preferences for a "state-run medical service." The American practice of ceding important administrative functions to nonstate bodies would have been inconceivable in Britain; it was assumed that the state would play a major role in financing *and* providing health care. Public opinion (rather than administrative capacity) loaded the dice, making certain institutional changes conceivable in Britain (e.g., a massive state role in the actual provision of hospital care for the entire population) while precluding them in the U.S.

Evidence that Weberians misspecify the causal argument for institutional change could be interpreted as ambiguous in some respects: findings of government concessions to interest groups and decisions to establish weak hierarchical control could reasonably be interpreted as consistent with Weberian accounts. The making of health policy, however, presents significant counterevidence. During the formulation of specific policy issues, American state actors relied on moderately weak administrative capacity, but they persistently exercised a high degree of independence from interest groups. Even risk-averse policymakers intent on building consensus dismissed particularistic claims.

Moreover, contrary to Weberian expectations, senior administrators in the U.S. did have high confidence in their capacity, and they aggressively lobbied President Kennedy for "direct federal administration." Policymakers, then, did not turn away from establishing hierarchical control because it was "too much [for] . . . the government machinery."[84] Rather, capacity-enhancing arguments were not seriously considered because the White House and members of Congress primarily focused on and were influenced by the enduring American ambivalence toward the state and public support for medical reform, which built on the Social Security approach. Finally, after identifying a reform approach that was consistent with public preferences and understandings, American policymakers (despite their comparatively weak institutions) significantly expanded the scope of government responsibility for and financial commitment to health care.

The central finding of this article is that public preferences and socially shared understandings have a critical influence on the process of detailed policy-making and on selecting the means for implementing

[84] Skocpol and Finegold (fn. 10).

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policy goals. It is thus not tenable to argue that the public's role is limited to identifying broad policy goals, whereas elite experts have free rein to fashion the means to achieve those goals. In both the U.S. and Britain public sentiment played a critical role in shaping specific administrative arrangements in such areas as hospital reimbursement.

That the mass public would affect institutional change is consistent with broad historical changes in the political and social structure of Western countries. Public sentiment is politically relevant not only because it "seeps" into policy discussions but also because twentieth-century Western policymakers have had no choice but to take an explicit interest in tracking and incorporating public preferences. No longer able simply to take their cue from dichotomous worker-capitalist class divisions,[85] Western politicians have been compelled by electoral pressures to take cognizance of voter sentiment in their atomized societies by explicitly tracking public opinion.[86]

The challenge to empirical research on liberal democracy posed by this article is broadly consistent with recent theoretical critiques of liberal democracy. From Madison to Schumpeter, a persistent thrust of liberal democratic theory has been to limit the extent and type of citizen participation in government decision making for the purpose of maintaining and enhancing both the protection of individual liberty and the quality of government policy. Weberian research, too, emphasizes the centrality of elites and their judgment. Thus, Skocpol and Finegold conclude that the strong administrative capacity of the AAA, which equipped a small group of elites with a body of experts and the authority to implement its decisions, was necessary to produce desirable (albeit workable) policies.[87] By contrast, the NRA, with its weak administrative resources that made elite domination vulnerable to interference, was doomed to produce undesirable policies that were ineffective and self-defeating.

In attempting to ensure that "[normative] reflection . . . do[es] not cut short analysis and understanding,"[88] the Weberians implicitly bolster a

[85] Rather than being able to assess their society in terms of two contending classes and of class-specific behavior such as rioting, policymakers have been faced with intense fragmentation created by ethnic and other cleavages. The emergence and operation of liberal democracy has been identified as a major cause of the fragmentation of society and, especially, of the working class. See Nicos Poulantzas, *State, Power, Socialism* (London: New Left Books, 1978); Adam Przeworski, *Capitalism and Social Democracy* (Cambridge: Cambridge University Press, 1986); and Benjamin Ginsberg, *The Captive Public* (New York: Basic Books, 1986).

[86] For a discussion of the development of an American and British public opinion apparatus for tracking public preferences, see Lawrence Jacobs, "The Recoil Effect: Public Opinion and Policy Making in the U.S. and Britain," *Comparative Politics* 24 (January 1992).

[87] Skocpol and Finegold (fn. 10).

[88] Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, "On the Road toward a More

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top-heavy and technocratic notion of policy making; empirical findings—that strong state structures operated by expert elites ensure greater government effectiveness—come to be accepted as desirable objectives. This interpretation, however, places superhuman demands on the instrumental (and moral) knowledge of state actors. Even if elites were especially competent to assess administrative feasibility, major policy decisions inevitably require judgments of risk, uncertainty, and trade-offs that defy expert answers.[89]

Moreover, on a normative level, recent democratic theory calls for greater citizen influence over, and direct participation in, policy-making.[90] By explicitly challenging the notion that the mass public's role in detailed policy-making should be limited and obfuscated, the participationists reinvigorate a democratic standard for analyzing control over the agenda, formulation, and implementation of government policy.

Given the limitations of direct participation (owing to the sheer population size of most Western countries), the useful application of the reinvigorated democratic standard to health policy is ambiguous. Thus, the American and British success in legislating a major expansion of social rights despite the vehement opposition of medical groups illustrates the importance of citizen involvement in insulated policy networks.[91] The encroachment of the citizenry on state autonomy can be necessary and desirable. But public preferences and understandings have had the (perhaps unintended) consequence of contributing to a health policy that is characterized by rapid cost escalation and persistent inequities. Thus, in the U.S. the failure to establish hierarchical control over a government system of retrospective, third-party reimbursement was a primary factor in the rapid escalation of the cost of Medicare soon after its implementation. In short, liberal democratic theory has neglected the importance of citizen influence on broad and detailed decisions; citizen influence, however, cannot be rigidly categorized (outside of a contextual analysis) as a favorable or unfavorable development.

Adequate Understanding of the State," in Evans, Rueschemeyer, and Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985).

[89] Robert Dahl, *Democracy and Its Critics* (New Haven: Yale University Press, 1989).

[90] Carole Pateman, *Participation and Democratic Theory* (Cambridge: Cambridge University Press, 1970); Crawford B. MacPherson, *The Life and Times of Liberal Democracy* (New York: Oxford University Press, 1977).

[91] For instance, the impact of public preferences led policymakers in Britain and the U.S. to abandon compromise arrangements; civil servants believed that these compromise arrangements were so faithful to the concerns of producer groups that they would have been an "administrative nightmare" requiring a "Ministry staff of archangels to work." See Jacobs (fn. 20).

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EXPLAINING THE LONG-TERM MAINTENANCE OF A MILITARY REGIME

Panama before the U.S. Invasion

By STEVE C. ROPP*

Introduction

DURING the 1960s and 1970s, Latin America witnessed the emergence of a considerable number of strong authoritarian military regimes. Scholars took most note of the right-wing and exclusionary bureaucratic-authoritarian ones that appeared in Argentina, Brazil, Chile, and Uruguay.[1] However, populist and inclusionary military regimes led by reformist officers also came to power in both Peru and Panama in 1968. And personalistic authoritarian dynasties, such as those of Alfredo Stroessner in Paraguay and the Somozas in Nicaragua, survived alongside their newer and more bureaucratically structured "cousins."

A number of competing theories were developed to explain the origins of this wave of renewed authoritarianism that swept over Latin America. Some viewed it as the inevitable product of the region's Iberian heritage with its stress on corporate organizing principles.[2] Others saw it as a new phenomenon, reflective of structural factors such as higher stages of economic modernization. For example, Guillermo O'Donnell argued that countries where the import-substitution stage of development had been exhausted produced bureaucratic-authoritarian regimes intended to surmount the political and economic difficulties associated with movement toward a more advanced stage of industrialization.[3] For some other less

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[1] See Guillermo O'Donnell, *Modernization and Bureaucratic Authoritarianism: Studies in South American Politics*, Institute of International Studies, Politics of Modernization Series, no. 9 (Berkeley: University of California, 1973); and David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979).

[2] Howard J. Wiarda, "Toward a Framework for the Study of Political Change in the Iberic-American Tradition: The Corporative Model," *World Politics* 25 (January 1973); and Ronald C. Newton, "On Functional Groups, 'Fragmentation,' and 'Pluralism' in Latin American Society," *Hispanic American Historical Review* 50 (February 1970).

[3] O'Donnell (fn. 1), 62.

World Politics 44 (January 1992), 210–34

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developed agro-export countries where enlightened elements of the middle class were beginning to demand political change as a result of rapid modernization, it was argued that reactionary despotic civil-military coalitions were formed as a backlash to prevent it.[4]

Regardless of how one explains the emergence of these new authoritarian regimes or the persistence of old ones, there is a general consensus that many managed to secure for themselves a relatively high degree of political autonomy from their respective societies and class constituencies.[5] In effect, these authoritarian regimes and their associated state bureaucracies "rose above" the populace and were able to develop programs that were more than simply the sum of their various constituent class parts.

By the early 1980s, this regional trend—toward the creation of increasing numbers of authoritarian regimes operating with greater degrees of freedom in relation to their domestic and international environments—had been reversed.[6] The process of reversal began in the 1970s when civilians who had been excluded from participation in national decision making by the military leaders of these regimes were gradually readmitted. The pace of readmission varied from country to country, depending on factors such as the socioeconomic and ideological distance that had separated military and civilian elites.[7] Nevertheless, the trend ran inexorably in the direction of a reconciliation of institutional and class interests, culminating in the return to democratic government in most of these countries by the mid-1980s.

This movement toward the reconciliation of institutional and class interests undermined the decision-making autonomy of authoritarian leaders for obvious reasons. Such autonomy was further eroded by growing doubt concerning the central assumption that had lent legitimacy to authoritarian regimes of both the Left and the Right—namely, that the state should serve as the primary force driving national economic devel-

[4] The most extensive treatment of reactionary despotism as a Latin American regime type is Enrique Baloyra, *El Salvador in Transition* (Chapel Hill: University of North Carolina Press, 1982).

[5] Alfred Stepan, "State Power and the Strength of Civil Society in the Southern Cone of Latin America," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985), 317. The exceptions to this rule of relatively high regime autonomy from civil society are the so-called "reactionary despotisms" that emerged during the 1970s in the Central American countries of Guatemala and El Salvador. Ibid., 101–2.

[6] Ibid., 318.

[7] For a revealing study of Peru, where readmission began in 1974, see Peter S. Cleaves and Henry Pease García, "State Autonomy and Military Policy Making," in Abraham F. Lowenthal and J. Samuel Fitch, eds., *Armies and Politics in Latin America* (New York: Holmes and Meier, 1986).

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opment. The bureaucratic authoritarian regimes of the Southern Cone that had been created in the name of achieving higher stages of economic development found their raison d'être increasingly challenged as national economies stagnated. Proponents of laissez-faire strategies argued that renewed growth would only be achieved through shrinkage of the state's share of the economic pie, cuts in government services, and state corporate divestiture.

The conditions that enabled various military authoritarian regimes to initially *establish* their autonomy from domestic classes and the international environment, together with those that later undermined this autonomy, have been extensively discussed in the literature.[8] What is not discussed in as much detail is the relationship between state/regime autonomy and regime *maintenance*. At best, there has been an implicit assumption that relatively high degrees of autonomy were positively associated with regime longevity.

One basis for making such an assumption is the fact that autonomy, no matter how established, can be viewed as an attribute of many authoritarian regimes that contributed to their ability to acquire legitimacy and hence to maintain themselves in power. General autonomy provided these regimes with certain specific "resources," such as decision-making independence and flexibility, which could in turn be converted into popular support. A classic case of this relationship between regime autonomy and increased legitimacy was Peru, where the military government that came to power in 1968 used its newfound independence to enhance its public appeal through nationalization of the International Petroleum Company.

The regional trend away from such autonomy and the associated rise in maintenance problems experienced by authoritarian regimes operating with reduced degrees of freedom makes it important to examine the three cases where such regimes survived until the late 1980s. The most durable of all was that established by General Alfredo Stroessner in Paraguay in 1954, which ended with a coup in 1989. The Chilean military regime that followed in the wake of Salvador Allende's beleaguered socialist government lasted from 1973 until democratic elections were held in 1989.

Panama is the third such case, with a military authoritarian government managing to maintain itself in power from 1968 until 1989. It is a particularly important and interesting case for several reasons. Although characterized by some observers as personalistic, the regime managed to

[8] For an excellent summary, see Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico* (Princeton: Princeton University Press, 1982), 281–86.

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survive for eight years following the death of General Omar Torrijos Herrera. Moreover, it is not clear that the regime would have quickly collapsed in 1989 had it not been for U.S. military intervention. The U.S. invasion itself constituted something of an admission by both the Bush administration and the domestic opposition that the regime could probably have survived for a much longer period of time.

Although Panama's economy began to stagnate during the mid-1970s and regime autonomy decreased somewhat relative to both the civilian elite and the labor sector, the state bureaucracy continued to grow throughout most of the following decade.[9] And while efforts were made by members of the civilian opposition during the 1980s to reduce the autonomy of the military institution through a gradual process of democratization, none of these were successful. The military retained its firm grip on national policy-making, continued to exclude members of the civilian opposition from the decision-making process, and successfully withstood efforts by three U.S. presidential administrations to curb military power.

How does one explain the fact that Panama's military regime survived the wave of democratization that swept Latin America during the late 1970s and early 1980s? And how does one explain the remarkable degree of autonomy that the regime maintained not only from Panama's domestic classes and the civilian bureaucracy but also from its international operating environment? From 1987 until 1989, the United States and its international allies mounted an intense campaign to remove General Manuel Antonio Noriega and to get the military out of politics. Extreme pressure from both domestic and international actors failed to produce results, and frustration with such failure finally led to the U.S. military invasion.[10]

Theories concerning the establishment and maintenance of military regime autonomy are basically of two types. There are those that attempt

[9] The number of employees of the central government and of autonomous/semiautonomous institutions grew from 57,998 in 1971 to 148,693 in 1986. From 1980 to 1986, it increased by more than 40,000. *Situacíon Social, Estadísticas de Trabajo, Año 1975* (Panama City: Contraloría de la República, Dirección de Estadística y Censo, 1976), 62; *Panamá en Cifras, Años 1973–1977*, 167; *Panamá en Cifras, Años 1980–1984*, 257; *Panamá en Cifras, Años 1982–1986*, 285. On the relative loss of regime autonomy during the 1970s vis-à-vis the civilian elite and labor sector, see Sharon Phillipps, *Labor and Politics in Panama* (Boulder, Colo.: Westview Press, 1991).

[10] Accounts of developments during the Noriega years (1983–89) can be found in John Dinges, *Our Man in Panama* (New York: Random House, 1990); Frederick Kempe, *Divorcing the Dictator* (New York: G. B. Putnam's Sons, 1990); Margaret E. Scranton, *The Noriega Years: U.S.-Panamanian Relations, 1981–1990* (Boulder, Colo.: Lynne Rienner, 1991); R. M. Koster and Guillermo Sánchez, *In the Time of the Tyrants* (New York: W. W. Norton, 1990); and Kevin Buckley, *Panama: The Whole Story* (New York: Simon and Schuster, 1991).

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to explain it in terms of the internal characteristics of the society and those that stress characteristics of the international environment. Various existing theories of both types that have been used to explain this phenomenon in other Latin American countries also work well in the Panamanian case for the decade of the 1970s. For example, it has been suggested that increasing autonomy is frequently associated with intraelite factionalism.[11] As in the Peruvian case, a populist inclusionary military regime came to power in 1968 at a time when deep divisions had appeared within the civilian governing class.[12] This new regime centered around a "strategic elite" cadre, possessed of a common developmental ideology, within the military. Aligning itself with various subordinate groups in civil society, this strategic military elite was able to secure for itself a relatively high degree of autonomy from previously dominant "hegemonic fractions."

The theory that access to foreign capital can support state growth and increase regime autonomy is lent further credence by the Panamanian case. For a variety of reasons that will be discussed below, Panama's central government and autonomous agencies were heavily subsidized by foreign governments, private banks, and international lending agencies. Barbara Stallings has documented the positive relationship that existed between access to such foreign capital and the increased autonomy of the state in twentieth-century Peru.[13] Reliance on foreign capital allows leaders to legitimize and maintain their regime by delivering government services while at the same time avoiding the political costs associated with domestic resource extraction. While such existing theories concerning the establishment and maintenance of regime autonomy work well for the period from 1968 through the early 1980s, they are of little help thereafter in explaining the continued vitality of Panama's authoritarian government. The country's foreign debt (precisely because the international lending environment had been so favorable) became

[11] Academic observers who use intraelite factionalism to explain the origins and growth of regime autonomy include Alfred Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton: Princeton University Press, 1982); and Hamilton (fn. 8).

[12] These divisions were between a minority element in the Liberal Party that wished to gradually move the state in a more developmental direction (in tune with programs of the Alliance for Progress) and a more traditionally oriented element of the party that did not. The latter threw its support behind populist presidential candidate Arnulfo Arias, thus ensuring both his victory at the polls and a subsequent military coup. Panamanian scholar Ricuarte Soler argues that this split in the oligarchy allowed the state to acquire a certain degree of relative autonomy vis-à-vis the dominant class. Interview with Ricuarte Soler in *Tareas* 33 (September–November 1975).

[13] Barbara Stallings, "International Lending and the Relative Autonomy of the State: A Case Study of Twentieth-Century Peru," *Politics and Society* 14 (Fall 1985).

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one of the highest, per capita, in the world.[14] Although the existence of a large service sector and a stable economic relationship with the Canal Area partially insulated Panama from the dramatic economic downturns associated elsewhere in the region with volatile commodity prices, economic conditions related to these activities were still such that the collapse of the military regime (or at least growing constraints on its independent action) might have been anticipated by the early 1980s.[15] Yet this did not happen.

In attempting to explain the Panamanian military's ability to maintain itself in power far beyond its anticipated lifespan, I will introduce several additional perspectives. These perspectives are not intended to substitute for existing theories concerning regime maintenance and autonomy, but rather are intended to refine and enhance their explanatory power when applied to Panama and several other countries with similar international environmental conditions and domestic institutional structures. I will argue that an important factor in this regard was the military institution's increasing ability after 1968 to directly and indirectly extract economic resources from Latin America and from Panama's large service sector. More specifically, a corrupt military/police institution with no historical sense of its legitimate societal functions and roles expanded its economic role to the point that it was able to monopolize resources generated through illicit and quasi-licit activities in this sector.[16] These resources (such as the millions of dollars obtained from drug money laundering) allowed the military institution to maintain its own independence and to partially subsidize the "popular bureaucracy" that served as its political power base within the larger structure of the authoritarian regime.

Ironically, the military's monopolization of wealth generated through such illicit service activities eventually undermined the authoritarian regime that this wealth had helped to maintain. Because the civilian commercial elite historically derived a substantial portion of its own wealth from smuggling and trade in illicit goods, the military's growing monop-

[14] By 1980, Panama's total outstanding external debt was approximately $3 billion. Inter-American Development Bank, *Economic and Social Progress in Latin America: 1989 Report* (Washington, D.C.: Inter-American Development Bank, 1989), 503.

[15] For a more detailed discussion of these factors that tend to stabilize Panama's economy, see Steve C. Ropp, "Leadership and Political Transformation: Two Levels of Regime Crisis," in Steve C. Ropp and James A. Morris, eds., *Central America: Crisis and Adaptation* (Albuquerque: University of New Mexico Press, 1984), 236–39.

[16] Many definitions of corruption have a pronounced Western bias. To avoid this problem, I propose a strictly legalistic one. Corruption is "the illegal use of public office to extract resources for private purposes or purposes that do not benefit the society as a whole." Other definitions can be found in Robin Theobald, *Corruption, Development and Underdevelopment* (Durham, N.C.: Duke University Press, 1990), 1–8.

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oly over these activities deeply antagonized the business class. In desperation, this class turned to the United States for help in removing General Manuel Antonio Noriega and restoring civilian rule.

The military's growing monopolization of illicit wealth also undermined its own institutional cohesion. Whereas General Torrijos (1968–81) served as an arbiter who ensured that each member of the General Staff and his associates received their "fair share" of the graft, General Noriega directed more to his closest collaborators. The substantial profits generated by drug money laundering beginning in the early 1980s flowed unevenly to various staff members, creating a new source of friction that eventually divided the military leadership. Involvement in the drug trade also undermined the authoritarian regime by alienating it from previously supportive international actors such as the United States.

In the remainder of this paper, I will examine in greater detail the question of how the historical growth of the Panamanian state eventually produced a military regime of long duration that was able to maintain itself in power in the face of deteriorating domestic and global economic circumstances. This will be followed with a broader comparative discussion of regime survival in the Latin American context.

State Growth and Mechanisms for Regime Maintenance during the 1970s and 1980s

In order to better understand how Panama's recent military regime managed to maintain itself in power for such an extended period of time, it is first necessary to situate this regime within the historical context of an expanding Panamanian state bureaucracy with increasing capabilities of its own for achieving a degree of independence from civil society and its international environment.[17] The growth of the Panamanian state can be traced back to the early post–World War II period when there was a proliferation of new government bureaucracies.[18] Prior to the war, a strong bias had existed within the ranks of the dominant urban com-

[17] The state, as defined by Max Weber and others, is a broad political entity composed of the civilian and military bureaucracies and their leadership. The regime is the temporary configuration of political leaders that sits atop and guides the state at any particular point in time. See Weber, "Politics as a Vocation," in Hans Gerth and C. Wright Mills, eds., *From Max Weber* (New York: Oxford University Press, 1958), 77–78.

[18] The two best sources on the growth and evolution of the Panamanian state are Juan Materno Vásquez, *Teoría del estado panameño* (Panama City: Ediciones Olga Elena, 1980); and Miguel Torres, *La contrucción del sector público en Panamá (1903–1955)* (San José, Costa Rica: Instituto Centroamericano de Administración Pública, 1982).

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mercial elite (centered in Panama City) against too much administrative centralization and control. Having suffered economically under the jurisdiction of Colombia for most of the nineteenth century, Panama's commercial elite wished to be left alone by the government. However, this attitude was somewhat tempered by a natural desire to make use of state institutions when they could serve elite purposes.[19]

Panama's central government was relatively weak during the early years of the Republic, but several factors contributed to its subsequent growth. Although the commercial elite was strongly committed to the economic tenets of laissez-faire capitalism, the country's political culture and tradition were Iberian. Thus, many of the provisions of Panama's 1903 Constitution framed the relationship between state and society in traditional corporate terms.[20] The emergence of a mass-based nationalist movement headed by Arnulfo Arias during the 1930s further strengthened the rationale for state expansion. For Arias and his followers, the struggle for national autonomy required an increase in state capabilities. With promulgation of the 1941 Constitution, Arias promoted a strongly interventionist role for the state. New government agencies were established, private property was recognized as having a social function, and the state was given the right to intervene in labor disputes.[21]

As was true elsewhere in Latin America following World War II, the Panamanian state took on a host of new development functions that contributed to its further expansion. Expansion of the public sector was paralleled by a growth in the extractive capacity of the state. The national government's per capita expenditures rose from $18 in 1940 to $40 in 1950 and to $56 by 1960. Another large jump occurred in association with the Alliance for Progress, and state expenditures reached $113 per capita by 1970.[22]

During the two decades of military rule that began in 1968, this trend in the historical expansion of the Panamanian state continued and even accelerated. There was a rapid proliferation of autonomous and semi-autonomous agencies, with a corresponding increase in the size of the government work force. Total employment in the public sector rose from 60,000 in 1971 to 107,000 by 1980. The public sector's share of na-

[19] The definitive work on the attitudes and worldview of Panama's urban commercial elite is Ricuarte Soler, *Formas ideológicas de la nación Panameña* (San José, Costa Rica: Editorial Universitaria Centroamericana, 1972).

[20] Materno Vasquez (fn. 18), 16–22.

[21] Ibid., 84.

[22] Dirección de Estadística y Censo, Contraloría de la República, *Situación Económica: Hacienda Pública y Finanzas–Año 1976* (Panama City: Government of Panama, 1978), 1.

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tional employment grew from 11 percent in 1963 to 13 percent in 1970 and to 25 percent by 1979.[23]

Maintenance in the 1970s

From this brief historical summary, it can be seen that the Panamanian military regime that emerged in 1968 was partially grounded in a burgeoning bureaucratic state. Most importantly, generalized state growth produced a new military organization in the 1950s, thus providing a strong institutional base for establishment of a new type of authoritarian regime. Yet the general growth of this bureaucratic state during the post–World War II period is not sufficient in and of itself to explain the long-term survival of this new regime, the first in the nation's history—civilian or military—to last more than ten years. As will be detailed below, the ability of the Torrijos-Noriega government to maintain itself in power for such a long period of time is more attributable to the emergence during the 1950s of a particular type of hybrid military/police organization operating within a particular international environment from which it could successfully extract economic resources.

One of the most important characteristics of state expansion under military tutelage during the 1970s is that it was primarily fueled by foreign capital rather than by major increases in the state's own domestic extractive capacity. Between 1970 and 1975, government taxes as a percentage of gross national product remained at a constant level of 15 percent and thus cannot account for the explosive growth of the public sector.[24]

Compared with other Latin American countries, Panama's military regime clearly had *preferential* access to foreign capital during the decade of the 1970s. Central government foreign borrowing averaged almost 5 percent of GDP between 1970 and 1980, while it averaged less than 2 percent elsewhere in Latin America (see Figure 1). This massive influx of foreign capital not only bolstered the central government but also allowed Panama's autonomous and semiautonomous agencies to become major engines of state growth. The central government's share of public sector investment declined from 85 percent in 1970 to 33 percent by

[23] Sandra M. Meditz and Dennis M. Hanratty, eds., *Panama: A Country Study* (Washington, D.C.: Federal Research Division, U.S. Library of Congress, 1989), 137.

[24] The Panamanian government did begin to extract more resources in the form of taxes during the latter half of the 1970s as private investment declined and the economy began to falter. Current revenues had risen to twenty percent of gross domestic product by 1980. Inter-American Development Bank, *Economic and Social Progress in Latin America: 1982 Report* (Washington, D.C., 1982), 362.

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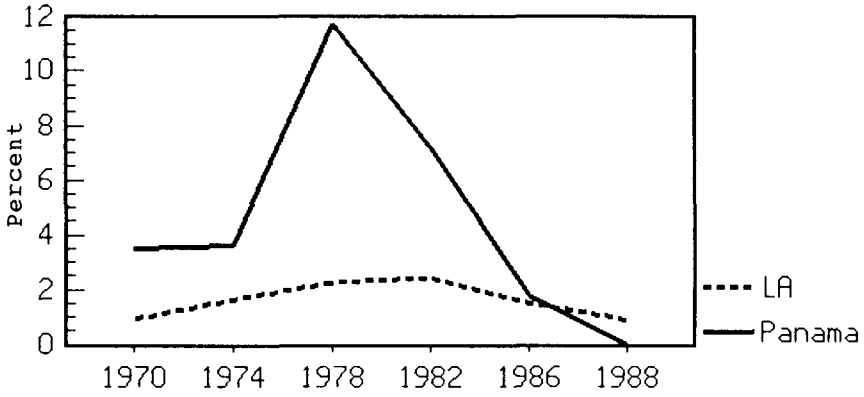

FIGURE 1
PANAMANIAN AND LATIN AMERICAN CENTRAL GOVERNMENT BORROWING, 1970–88
(PERCENTAGE OF GROSS DOMESTIC PRODUCT)

SOURCES: Inter-American Development Bank, *Economic and Social Progress in Latin America: 1982 Report*, 364; *1985 Report*, 401; *1986 Report*, 407; and *1989 Report*, 476.

1977.[25] During this same period, the autonomous and semiautonomous agencies acquired some $800 million in external debt obligations.[26]

What accounts for the Panamanian military regime's remarkable access to foreign capital during the 1970s? Part of the answer lies in the desire of lending countries and their suppliers to finance the purchase of capital goods in a rapidly developing middle-income Third World country, coupled with the availability of petrodollars. However, this desire of lending countries to lend cannot be used to explain Panama's *preferential* access to foreign capital, since many other Latin American countries that were at a similar stage of economic development did not benefit from such special access.

Since such economic arguments do not appear credible, one might look for political explanations. One of the first acts of Panama's military regime upon coming to power in 1968 was to pass new laws that were highly favorable to both the major U.S. banks and multinational corporations. The rapid expansion of multinational banking and business activity throughout Latin America during the 1970s gave these banks and corporations a growing stake in the political stability of Panama's mili-

[25] Richard Nyrop, ed., *Panama: A Country Study* (Washington, D.C.: U.S. Government Printing Office, 1981), 100.
[26] *Ya* (June 1980), 7.

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tary regime.[27] And during this same period, the Carter administration grew increasingly supportive of General Torrijos and his government because new canal treaties were being negotiated.[28] It is perhaps no coincidence then that Panama's foreign borrowing peaked in 1978, the year the treaties were ratified (see Figure 1).

Fueled by this massive influx of foreign capital, Panama's military regime and its associated bureaucracy grew rapidly and increased its autonomy. Peru experienced a similar phenomenon during the early years of inclusionary military rule, beginning in 1968. In both the Panamanian and the Peruvian cases, the regime's autonomy was further heightened by its access to external financing from *private* banks. Private capital appears to favor high degrees of state autonomy more than does capital obtained from official government sources, because private banks lack the personnel to closely monitor use of their overseas assets.[29] The share of Panama's foreign capital derived from private rather than official international sources such as the World Bank grew from 36 percent in 1970 to 61 percent by 1980 (see Figure 2).[30]

While the government bureaucracy had historically been used by Panamanian politicians as an independent base of political support, rapid expansion of the public sector during the 1970s offered leaders of the military regime new opportunities in this regard. Public sector growth led to the creation of a large bureaucratic lower middle class, or "popular bureaucracy," whose primary allegiances were to the regime. By 1975, there were approximately 45,000 low- and middle-income employees working in the public sector who, with their families, provided a strong popular political base for the regime in a country of only two million people.[31]

[27] Murray N. Rothbard, "The Treaty That Wall Street Wrote," *Inquiry* 1 (December 5, 1977), 9–14.

[28] For example, Panama received some $200 million in new loans from the Export-Import Bank prior to ratification of the treaties. The author was told at the time by a high official of the bank that these loans to Panama were not being granted for the publicly stated reason that business was expected to improve following treaty ratification; they were granted simply because officials from the Carter administration had come to the bank to request such funds. Privileged interview, Albuquerque, New Mexico, September 7, 1978. Analyses of the bargaining matrix for negotiation of the 1978 treaties can be found in Walter LaFeber, *The Panama Canal: The Crisis in Historical Perspective* (New York: Oxford University Press, 1978); William L. Furlong and Margaret E. Scranton, *The Dynamics of Foreign Policy Making: The President, the Congress, and the Panama Canal Treaties* (Boulder, Colo.: Westview Press, 1984); and William J. Jorden, *Panama Odyssey* (Austin: University of Texas Press, 1984).

[29] Stallings (fn. 13), 261.

[30] Between 1968 and 1978, Latin America received 42 percent of its external credit from private sources, while Panama received 56 percent. Inter-American Development Bank, Economic and Social Development Department, Letter of January 2, 1990; and Stallings (fn. 13), 278.

[31] See Margarita Herrera, Marta Arce, and Mayra Castillo, *Los sectores populares y el pro-*

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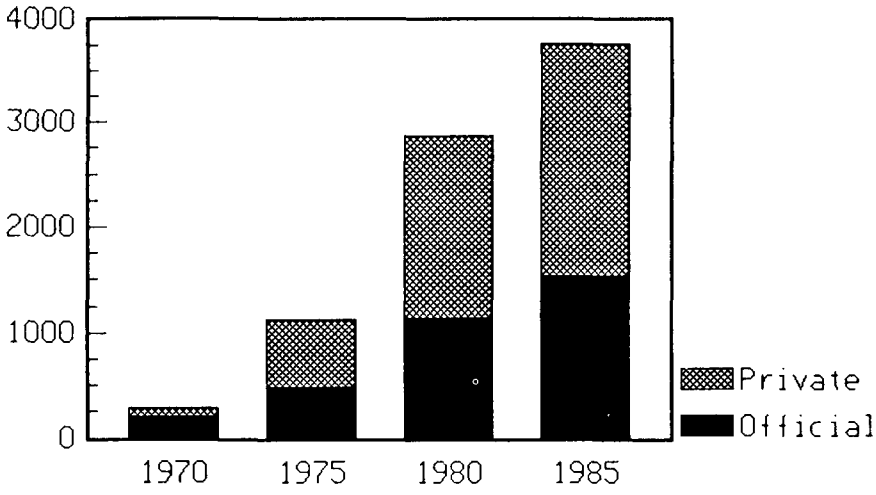

FIGURE 2
PANAMANIAN EXTERNAL PUBLIC DEBT BY SOURCE, 1970–85
(MILLIONS OF U.S. DOLLARS)

SOURCE: Inter-American Development Bank, Economic and Social Development Department, Letter of January 2, 1990.

During this initial phase of its existence, the new military regime was able to maintain itself in power by using foreign capital from private banks and international lending institutions to create a large state bureaucratic apparatus consisting of central government institutions and vastly expanded autonomous and semiautonomous agencies. This bureaucratic apparatus, which was heavily weighted toward the incorporation of lower-income employees, in turn served as the support base for the creation of a new official political party in 1978. The Democratic Revolutionary Party founded by General Omar Torrijos gave concrete expression to the high degree of political autonomy that had been achieved by the military regime. Foundation of this party also laid the political groundwork for more extended regime maintenance and survival during the subsequent decade.

In addition to the self-interest of state bureaucrats, which served as a powerful mechanism for regime maintenance, General Torrijos was able to use the government's newfound autonomy to create an aura of national legitimacy. A campaign was launched in the early 1970s to enlist

letariado (Panama City: Centro de Estudios y Acción Social, 1979), 46. This study would define members of the "popular bureaucracy" as all public employees earning less than $3,600 per year. In 1975, there were more public employees in this lowest wage category than there were in the same category within the private sector.

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international support for the negotiation of new canal treaties. This process culminated in 1978 with the ratification of documents that immediately returned the Canal Zone to Panama and that allow the country to gain full control of the canal itself in the year 2000.

Maintenance in the 1980s

Panama's central economic phenomenon of the post–World War II period has been the explosive growth of the service sector. While this sector had historically made an important contribution to the national economy, globalization of the world economy through the activities of multinational corporations took Panama to new heights in this regard. Service sector activity expanded from 57 percent of gross national product in 1950 to 63 percent in 1965 and to 73 percent in 1985. By the mid-1980s, the percentage of economic activity concentrated in Panama's service sector was the highest in the world.[32]

The Panamanian military was able to capture a sizable portion of the wealth illicitly generated by the rapid growth of this service sector following the 1968 coup, and to use this wealth to reconstruct a role for itself in society. The original military institution had been disbanded in 1904 by the United States acting in collaboration with Panama's civilian government. It was replaced at that time by a weak and politically subservient police force that did not begin to reestablish its independence until the 1950s. The increasing ability of the police/military institution beginning in the 1950s to extract resources from illicit service sector activities partially accounts for its growing power and relative autonomy during the 1960s and 1970s; it largely accounts for its survival as a central player in Panamanian politics into the late 1980s. The military was by no means the first such force to build its political power base around the control of illicit service sector activities. In fact, it can be argued that Panama as a national social formation is largely the product of such activities as practiced since colonial times. Colonial merchants engaged in contraband trade in African slaves and used the resulting profits to capitalize real estate and other business ventures in Panama City.[33]

As the Panamanian military began to grow and reassert itself in national politics during the 1950s, it also began to assume a larger economic

[32] Meditz and Hanratty (fn. 23), 125–29.

[33] Historian Omar Jaén Suárez argues that "contrabanding and smuggling have in Panama such power that we cannot consider it to be a marginal activity practiced by a small group of marginal persons in a clandestine fashion. . . . Smuggling is a way in which the Creole natives were able to confront the monopoly of the metropole during the 17th and 18th centuries." *La población del Istmo de Panamá del siglo XVI al siglo XX* (Panama City: Impresora de la Nación, 1978), 305–7.

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role. The 1950s and 1960s saw the rise of individual entrepreneurs within the officer corps but not of a "business class" as such. Although they were somewhat marginal members, Commander José Antonio Remón and his successor, Bolívar Vallarino, had family ties to the urban commercial elite. The elite allowed them to participate in its business ventures partly because of these family ties and partly due to fear of the consequences if they did not. For example, Colonel Vallarino forced the owner of a major beer company to make him a "gift" of stocks, thus becoming a silent partner in the firm.[34] Both Remón and Vallarino were involved in numerous illicit activities, including drug trafficking and prostitution, which enriched them personally but had little effect on the institution as a whole.[35]

After the 1968 coup that brought General Omar Torrijos to power, the National Guard's involvement in resource extraction from the service sector became less personalized, more systematic, and broader in scope. These changes were due to the evolution of the structure of the military institution itself, the increased control it was able to exert over the civilian government, and the government's increasing involvement in service sector activities. The transformation from police force to national guard in the mid-1950s brought an influx of academy-trained officers into the ranks. The new officer cohort to which Omar Torrijos belonged replaced the individual military entrepreneurs who had previously headed the guard. With few personal and family ties to the civilian commercial elite, they developed a more institutionally centered and independent approach to the extraction of wealth.

The control that the military was able to exercise over the national government following the 1968 coup placed it in a position to take full advantage of the government's growing direct involvement in the service sector. As the general literature on corruption in Third World countries suggests, the leaders of Latin American states were much more capable of engaging in a variety of illicit activities during the 1970s than they had been before, due to a unique confluence of domestic and international circumstances. Domestically, "overdeveloped" public sectors encompassing many new autonomous agencies with unclear lines of authority provided expanded opportunity. Access to vast amounts of foreign capital and oil revenue combined with this inchoate organizational environment to further facilitate corrupt practices.[36]

[34] Privileged interview, Panama City, January 10, 1979.

[35] On corruption during the Remón years, see Larry LaRae Pippin, *The Remon Era* (Stanford, Calif.: Institute of Hispanic American and Luso-Brazilian Studies, Stanford University, 1964).

[36] One of the most notorious examples of such corruption in the 1970s was Mexico under

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One of the main government agencies that allowed Panama's military regime to tap the burgeoning service sector for illicit gain was the Colón Free Zone. Established as an autonomous agency in 1948, the Free Zone grew at an average rate of 23 percent a year during the 1970s and, by 1979, handled 7 percent of Latin America's imports.[37] Control of the Free Zone allowed the military to insert itself centrally into the process of extracting profits from international trade activities. The military also gained control over state institutions and such facilities as airports and banks. This control proved crucial as officers turned to drug smuggling and money laundering.

Military control over the Colón Free Zone allowed the institution to extract huge profits from a variety of sources during the 1970s and 1980s. For example, the governments in newly industrialized countries such as Brazil and Argentina granted large subsidies to their businessmen to promote nontraditional exports. These businessmen would routinely bribe their own customs officials to vastly overvalue the merchandise they shipped to the Free Zone, thus allowing them to profit from a government subsidy often worth more than the shipment itself.[38] In collaboration with Panamanian officials, this exported merchandise would be reinvoiced to indicate that it had been transshipped through Panama to a third country. The Panamanian military and customs officials would then sell the merchandise to Panamanian merchants. The military kept the profits and the merchants paid no import fees.[39]

The Colón Free Zone was also used to transship large amounts of contraband to businesses in Latin America, particularly in Venezuela and Colombia. The Panamanian military became deeply involved in supplying Latin American armies with contraband goods such as arms, liquor, and electrical appliances. These goods most commonly departed the Free Zone on the military ships and aircraft of the importing country and were transported directly to military commissaries there.[40]

While trade in contraband goods (including arms) was the "growth stock" of the military's extractive activities during the 1970s, it also continued to rely on more traditional sources of revenue. Prostitution remained one of the mainstays in this regard since, as in many other Latin American countries, it is legal and regulated by the police. It is alleged

the leadership of President José López Portillo. On the role of the overdeveloped state, foreign capital, and oil revenues as factors encouraging corruption in the 1970s, see Theobald (fn. 16), 86, 98, and 101.

[37] *Zona Libre de Colón* (Panama City: Focus Publications, 1980), 50–55.

[38] For example, a shipment of goods whose true value was $50,000 would be valued at $210,000. With a 33 percent export subsidy, the exporting industrialist would earn a profit of $20,000, no matter what happened to his merchandise once it reached Panama.

[39] Ezequiel Muhtar, *La Mordida* (Miami, Fla.: Editorial Istmo, 1976), 144–45.

[40] Ibid., 227.

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that General Torrijos personally owned several houses of prostitution staffed by a stream of select Colombian women whose procurement was handled by Lieutenant Colonel Manuel Antonio Noriega. The military's control of immigration ensured that there was no outside interference in such business ventures.[41]

The rapid growth of the Panamanian state during the 1970s also allowed the military to siphon off profits from the various government agencies that they controlled. For example, as minister of agriculture, Colonel Rubén Darío Paredes moved funds from his agency to the Ministry of Government and Justice, which theoretically managed the National Guard. Retired military personnel working within the ministry then transferred these funds directly to military coffers.[42] Funds generated by the National Guard during the 1970s from such activities were used for two primary purposes. Some were earmarked for use by the institution as a whole in its national role as a developmental bureaucracy. They went to finance large-scale military civic action programs and allowed General Torrijos and his colonels to perform effectively as populist politicians in uniform. A second, less publicly spirited purpose was to enrich individual members of the military institution at all levels. Members of the general staff could count on large additional incomes from participation as "silent partners" in legal businesses and from percentages of the take from a variety of illegal sources.[43] Such personal enrichment was not limited to the top officers, however. Midlevel officers could expect illicit remuneration appropriate to their rank and station; and enlisted men had access to "commissaries," where all manner of consumer goods that had been seized as contraband were available at little or no cost.

The military's rapidly growing ability to extract resources from the coffers of various government agencies, from the local business community, and from the international business community operating through the Colón Free Zone vastly increased its power and autonomy during the 1970s and 1980s. It grew in size from a relatively small national guard containing 5,500 people in 1968 to a well-armed and equipped military/police force of some 16,000 by 1987.[44]

[41] Privileged interview, Washington, D.C., October 26, 1989. See also Kempe (fn. 10), 56. Kempe says that, during the 1970s, "the profitable prostitution business [in Colón] was run by the National Guard, and Torrijos was the local equivalent of a madame."

[42] Privileged interview, Washington, D.C., October 26, 1989.

[43] A typical case of National Guard officers serving as silent partners involved a foreign businessman who began to extract gold and silver from film that he purchased in Panama. When the businessman did not agree to turn over part of the profit to the Guard, his family was threatened. Privileged interview, Washington, D.C., October 26, 1989.

[44] Renato Pereira, *Panamá: fuerzas armadas y política* (Panama City: Ediciones Nueva Universidad, 1979), 79.

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Military access to a plethora of new resources allowed it to establish an extensive civic action program that set the institution apart from the civilian government itself as an engine of economic growth. Its institutional legitimacy was enhanced by its ability to directly deliver developmental assistance to remote rural areas. Military power and autonomy was also enhanced by the positive image that the institution was able to cultivate within the international community. Portraying himself as a benign strongman bent on developing his country and negotiating new canal treaties, General Torrijos received considerable financial aid from the United States. This positive international image served to mask the fact that the Panamanian military controlled an ever-growing share of the national economy.

In sum, regime maintenance during the late 1970s and 1980s was increasingly a function of the military's ability to "leverage" resources extracted from the illicit service sector in such a way as to expand and extend the legitimacy of the regime both domestically and internationally. To be sure, Omar Torrijos was a gifted politician with a genuine concern for improving the economic lot of the average Panamanian. While the contribution of his personal skills to the process of regime maintenance during the 1970s cannot be discounted, the evolving economic support base of the regime, which permitted effective populist leadership to endure, seems to have been a more important factor than his personal ability.

The Breakdown of Maintenance Mechanisms and Regime Decay in the Late 1980s

Although Panama's authoritarian regime maintained itself through a variety of corrupt and illicit activities, these activities were fully compatible with continued national economic growth. Indeed, Samuel Huntington has argued that such activities may facilitate rather than impede growth by serving as a counterweight to Latin America's rigid and overly centralized bureaucracies.[45]

However, as Huntington also points out, endemic corruption does not uniformly favor *political* development.[46] In the case of Panama, the military's ability to extract resources from the illicit service sector insulated the authoritarian regime from the civilian opposition and undermined

[45] Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), 59–71.

[46] He does suggest that corruption can facilitate political development along certain dimensions by encouraging the establishment of programmatic political parties and broadening participation. Ibid., 62.

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efforts at democratization. Eventually, the regime's tendency to resort to "exclusionary corruption," coupled with its desire to maintain itself in power indefinitely, convinced the civilian opposition that economic development within a context of continued political underdevelopment was not enough. While the military institution was led by General Torrijos, resource extraction through corrupt practices remained within tolerable bounds. This is not to say that corruption was a small-scale activity—it certainly was not. Rather, it was not so widespread as to encompass *all* national economic activities, nor did it greatly exclude the urban commercial elite.

Following the death of Torrijos in 1981, this pattern of "bounded corruption" began to change. Manuel Antonio Noriega became commander in chief in 1983 and transformed the National Guard into the Defense Forces (PDF). With this move, he vastly expanded the military's scope and functions. The Defense Forces assumed control of the entire national transportation network—seaports, airports, railways—as well as customs and immigration services.[47]

General Noriega's ability to expand so rapidly the scope and functions of the PDF beginning in 1983 was largely due to the fact that a national guard in Latin America is a particular type of public security organization with little sense of appropriate institutional boundaries. The United States established such organizations in Panama, Nicaragua, Haiti, and the Dominican Republic during periods of military occupation in the early twentieth century. Designed as part army and part police force, and intended to fill the security void left when the United States removed its own troops, these organizations were in origin hybrid multifunctional entities with no inherent concept of their legitimate historical roles, functions, or natural limitations.[48]

Noriega's transformation of the National Guard into the Defense Forces corresponded with major changes in the international environment that vastly increased the military's ability to extract resources from that environment. The conflict in Central America created new markets for arms that could be serviced using the PDF's growing fleet of airplanes. Beginning during the Sandinista revolution, with the resupply of armaments to rebel forces, the military gradually expanded its arms shipments

[47] The span of control assumed by the Defense Forces in 1983 was truly remarkable. The National Passport Department, although assigned by law to the Ministry of Government and Justice, was controlled by a PDF captain. The Civil Aeronautics Administration, an autonomous agency, was headed by a major. The National Railroads was also headed by a major. "Law Number 20," September 29, 1983, *Gaceta Oficial*.

[48] Alain Rouquié, *The Military and the State in Latin America* (Berkeley: University of California Press, 1987), 126–27.

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to include other insurgent groups and governments in Central America. More importantly, the growth of the cocaine market in the United States led to an increase in the power of the Medellín and Cali drug cartels in neighboring Colombia. Due to its proximity and large international banking community, Panama quickly became the country of choice for laundering the enormous profits generated by the cocaine trade. General Noriega and his close associates within the high command of the PDF were able to facilitate these laundering operations through their control of airports, armored car services, and the National Bank.[49]

The rapid expansion of the PDF's illicit activities during the 1980s further increased the revenue at the direct disposal of both the institution and the individual members of the officer corps. It allowed the military institution and the political regime that it headed to maintain a considerable degree of autonomy not only from domestic social classes but also from a United States government increasingly bent on its destruction. Following the application of U.S. economic sanctions in March 1988, funds accumulated through corrupt practices were used to preserve a degree of financial independence sufficient to allow Noriega and his regime to survive for two more years.[50]

However, the authoritarian regime's rapidly growing economic reach also had the effect of undermining its domestic political position. Prior to Torrijos's death in 1981 and Noriega's ascension to power, a strong tacit alliance had existed between the military leadership and a sizable portion of the business community. While the urban commercial and industrial elite that had traditionally governed Panama no longer commanded the political heights, they were allowed by the regime to profit from government contracts and to maintain their business interests intact.[51] And the small merchants who relied on the Colón Free Zone for a steady stream of contraband goods did quite well during these years as long as they continued to pay the appropriate bribes. As a former leader of the official Democratic Revolutionary Party put it, "Those who paid

[49] U.S. Congress, Senate, Subcommittee on Terrorism, Narcotics and International Communications of the Senate Foreign Relations Committee, *Drugs, Law Enforcement, and Foreign Policy: Panama*, Part 2, 100th Congress, 2d sess., 1988, p. 135.

[50] At a minimum, the regime had to pay the salaries of the "popular bureaucracy," estimated by the Reagan administration to be $54–$65 million per month. Noriega tapped most of the illicit sources for such funds. Kempe (fn. 10), 270–72.

[51] A good example of this relationship is the one that sugar magnate Eric Arturo Delvalle allegedly had with the military regime. "He kept the family fortune healthy by adhering to the thoroughly Panamanian philosophy of one hand washes the other. His family sugar business depended on the government's allocation of a near monopoly portion of Panama's sugar export quota to the United States. He had no problem with returning the favor by allocating a number of well-paid sinecures to PDF officers and other Noriega cronies." Dinges (fn. 10), 279.

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the most to finance the system were foreign companies and Panamanian businessmen who benefited and therefore seldom complained."[52]

This comfortable relationship between the regime and portions of the urban commercial and industrial elite changed in the mid-1980s as Noriega began to expand the reach of the PDF. He surrounded himself with a new class of both civilian and military entrepreneurs who increasingly forced the elite to accept them as silent partners.[53] Equally important was the fact that the officer corps was beginning to challenge the commercial elite for social status. The predominantly white elite strongly resented the presence of the drug-tainted mestizo and colored nouveau riche in their exclusive urban neighborhoods.[54] During the late 1980s, Noriega skillfully used the new business class associated with the regime to economically marginalize traditional economic groups. While tapping the elite's domestic resource base through combined ventures was important in this regard, more important was the expropriation of its international contacts. Increasingly, leading businessmen found it impossible to deal with major potential investors such as the Japanese without going through members of the new business class.[55]

Given the growing economic tensions between the regime and urban commercial and industrial elite, it comes as no surprise that some members of that elite spearheaded the movement to get rid of Noriega.[56] In the spring of 1987, the National Civic Crusade was formed by one hundred civic groups, most with a business orientation. For the next several years, this business-dominated alliance organized protest marches and strikes in their efforts to effect political change. These efforts were undermined to a certain extent by lack of unity within some sectors of the business community. For instance, the Defense Forces maintained considerable influence among the smaller merchants who were totally dependent on contraband goods that were provided by the regime through the Free Trade Zone.[57]

[52] Ibid., 116.

[53] Members of the new civilian business class included Gaspar Wittgreen, Carlos Wittgreen, and Alberto Calvo. Allegedly, they were particularly adept at tapping new sources of wealth for the regime such as shipping fees, sale of passports, and military end-user certificates. Kempe (fn. 10), 270–72.

[54] Andres Oppenheimer and Sam Dillon, "Businesses Add to Noriega's Clout," *Miami Herald*, February 6, 1988, pp. 1A and 20A.

[55] Kempe (fn. 10), 216.

[56] Two of the main leaders of this civilian opposition movement were businessmen who are alleged to have been denied a lucrative housing contract by Noriega in early 1987. Gabriel Lewis Galindo and Roberto Eisenmann apparently wished to construct military housing in the Canal Area that could have been sold for a huge profit when the area was returned to Panama in the year 2000. Both helped to orchestrate the overthrow of Noriega while in exile in the United States. Kempe (fn. 10), 216–17.

[57] Small businessmen were not just vulnerable to regime pressures because they were

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The rapid growth in revenue generated by involvement of the Defense Forces in the drug trade also led to growing divisions within the ranks of the officer corps itself. General Noriega surrounded himself with a trusted group of close associates who had been with him during his days as chief of intelligence. Those outside of this inner circle, even members of the General Staff, were not privy to all of the various illicit activities in which Noriega had become involved. During the mid-1980s, numerous heated discussions were conducted behind closed doors concerning the appropriate distribution of profits.[58] The General Staff finally split apart in June 1987 when Colonel Roberto Díaz Herrera openly accused General Noriega of various political crimes.[59]

Thus, the very process of military role expansion that had extended the life of the regime by increasing its control over illicit service sector activities eventually led to its downfall. Mechanisms designed to maintain the regime beyond its "natural" lifespan proved to be unstable and even counterproductive in the long run. These mechanisms not only undermined support for the regime within the commercial class but also within the military institution itself.

Long-Term Maintenance in Comparative Perspective

The central task of this article has been to explain the maintenance of Panama's military regime prior to the U.S. invasion of December 1989 and the remarkable degree of autonomy that it sustained from its domestic and international environment for more than twenty years. Part of the explanation for the growth of military power lies in the generalized growth of state power and autonomy following World War II. However, this general historical trend does not help to explain the extremely long duration of military rule following the 1968 coup. The analysis contained herein has stressed several additional factors that appear to have provided support for the regime during the 1970s and 1980s.

small. While many members of the urban commercial and industrial elite were Hispanic, with deep historical roots in Panama, small businessmen were often post–World War II arrivals from the Levant or other regions of the world. The structure of Panama's contemporary business community is discussed in William R. Hughes and Iván A. Quintero, *Quienes son los dueños de Panamá?* (Panama City: Centro de Estudios y Acción Social Panameño, 1987). For a good sociological study of the historical evolution of the Hispanic urban commercial elite, see Alfredo Figueroa Navarro, *Dominio y sociedad en el Panamá colombiano (1821–1903)* (Panama City: Impresora Panamá, S.A., 1978).

[58] Privileged interview, Washington, D.C., October 26, 1989.

[59] Díaz Herrera did not, of course, publicly accuse Noriega of failure to equitably distribute the profits derived from corrupt activities, although this had apparently become a major point of disagreement between the two men. Díaz went public with his charges of regime corruption only after Noriega allegedly denied him the lucrative ambassadorship to Japan in exchange for his retirement. Kempe (fn. 10), 210–11.

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In arguing that the factors mentioned in this paper were critical to the long-term survival of Panama's military regime, I do not mean to suggest that additional factors mentioned by other observers were unimportant at various points in time. For example, it seems clear that U.S. willingness to provide Panama with increased foreign aid in the mid-1980s in exchange for holding elections and supporting U.S. military initiatives in Central America bolstered the regime during this period.[60] Additional important reasons for the regime's survival from 1987 until 1989 include: (1) divisions within the civilian domestic opposition; (2) political support for the regime from countries such as Mexico, Cuba, and Nicaragua; and (3) disagreements among U.S. decision makers concerning how best to go about removing Noriega. Despite these caveats, I believe that the key factor in explaining long-term maintenance was the regime's extraordinary ability to extract licit and illicit economic resources from its international environment.

In the 1970s, the military government led by General Omar Torrijos had access to substantial amounts of international capital. The highly favorable lending climate during this decade was largely due to the recycling of petrodollars made possible by a rapid rise in the price of crude oil. Panama's preferential access to such capital was due to several additional factors: the U.S. banking community decided to turn Panama into a major Western Hemisphere financial center, and the Carter administration wished to negotiate new canal treaties with a stable and prosperous Panama.

During the late 1970s, these legitimate sources of international capital began to dry up and the military regime's ability to borrow was seriously impaired by the rapid growth of the national debt. However, the regime maintained a considerable degree of autonomy because of its ability to extract alternative resources from its domestic and international environment. Illicit funds continued to pour into military coffers through activities such as money laundering, contraband processing through the Colón Free Zone, merchant marine licensing, provision of arms end-user certificates, sale of passports to foreign nationals, "silent partnerships" with local businessmen, prostitution, and gambling.

Although the military regime was brought down by a U.S. invasion, there were signs that it was already in a state of terminal decay. During the 1970s, there were few economic costs that had to be directly borne by the commercial elite, and indeed many members of this elite benefited from the booming economy that was encouraged by foreign borrowing.

[60] Foreign aid increased from $7.4 million in 1983 to $12 million in 1984 and to $74.5 million in 1985, following the election of Barletta. Scranton (fn. 10).

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However, when military officers increasingly turned to methods such as the negotiation of silent partnerships in order to expand their personal wealth during the 1980s and assumed monopoly control over international business contacts, the commercial class began to break with the regime.

Was the Panamanian case of regime maintenance unique or can we find other examples of this phenomenon elsewhere in Latin America? Certainly, it must be recognized that any Panamanian government, whether civilian or military, will possess a unique comparative advantage in terms of its ability to extract licit and illicit resources from its international environment. This is partly due to a strategic location which has made the country's political stability of singular importance to the United States. For this reason, Panama has historically received the largest per capita U.S. economic aid of any Latin American country.[61]

A second reason for this comparative advantage is the fact that Panama is a country whose economic life revolves around a large port city and major international transit route. Such port cities and their associated transit routes have historically offered a myriad of opportunities for illicit resource extraction, whether it be through the provision of prostitutes to sailors, drugs, or smuggling.[62] With the world's second largest free trade zone, Panama's authoritarian regime was uniquely positioned among Latin American countries to take advantage of the rapid growth of multinational economic activity in the hemisphere.

Unfortunately, the underdeveloped state of the comparative literature on regime maintenance and duration means that there is a weak base from which to derive regional comparisons. To my knowledge, only one theoretical framework has been fully developed for the comparison of Latin American authoritarian regimes in this regard. Although thought provoking, it is of limited utility for application to the Panamanian case because it focuses exclusively on the impact of domestic institutional structures and explicitly excludes Central American and Caribbean countries.[63]

Panama's durable military government is best compared with four regional authoritarian regimes that managed to survive for an average

[61] Neil R. Richardson, *Foreign Policy and Economic Dependence* (Austin: University of Texas Press, 1978), 105.

[62] Several good comparative studies are Maurice Punch, *Conduct Unbecoming* (New York: Tavistock Publications, 1985); and Lawrence W. Sherman, *Scandal and Reform: Controlling Police Corruption* (Berkeley: University of California Press, 1978).

[63] Karen Remmer identifies four types of military authoritarian institutional structures (monarchic, oligarchic, sultanistic, and feudal), and distinguishes between their varying degrees of durability and longevity. Remmer, *Military Rule in Latin America* (Boston: Unwin Hyman, 1989), 34–42.

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of thirty years each—those of Paraguay (1954–89), Nicaragua (1936–79), Haiti (1957–86), and Chile (1973–89). To the extent that the question of regime maintenance is considered by academic experts who have studied these cases, their analysis tends to focus on the importance of domestic institutional structures. Duration in the first three of these cases is generally attributed to the personal leadership skills of their respective authoritarian rulers (Alfredo Stroessner, Anastasio Somoza, and François Duvalier).[64] In the case of Chile, the explanations tend to be somewhat more complex, although they still revolve around a particular set of domestic institutional and political factors.[65]

The analysis presented here has suggested that domestic institutional structures are important in explaining regime maintenance and duration in Panama but for a somewhat different set of reasons than those suggested in the above-mentioned cases. Although General Torrijos was a skilled and charismatic leader, the regime was not a personalistic authoritarian one whose success can be explained largely in these terms. Rather, what is most important in the Panamanian case was the domestic political centrality of a particular type of military institution possessing characteristics that allowed it to take full advantage of the licit and illicit opportunities for resource extraction available through its international operating environment.

Nicaragua under the Somozas offered perhaps the closest parallel to Panama during the 1970s and 1980s. In both cases, a national guard with no inherent sense of its legitimate functions and boundaries came under the control of corrupt leaders who vastly increased the extractive capacity of their institutions.[66] The growth of such extractive capacity allowed

[64] On Stroessner, see Paul H. Lewis, *Paraguay under Stroessner* (Chapel Hill: University of North Carolina Press, 1980); and Carlos R. Miranda, *The Stroessner Era: Authoritarian Rule in Paraguay* (Boulder, Colo.: Westview Press, 1990). For the Duvaliers, see Elizabeth Abbott, *Haiti: The Duvaliers and Their Legacy* (New York: McGraw-Hill, 1988); and Simon M. Fass, *Political Economy in Haiti: The Drama of Survival* (New Brunswick, N.J.: Transaction Books, 1988). For the Somozas, see John A. Booth, *The End and the Beginning: The Nicaraguan Revolution* (Boulder, Colo.: Westview Press, 1982); and Richard Millett, *Guardians of the Dynasty* (Maryknoll, N.Y.: Orbis Books, 1977).

[65] For a sophisticated effort to explain the dynamics of Chile's democratic regime and the ability of its military successor to survive, see Arturo Valenzuela, "Chile: Origins, Consolidation, and Breakdown of a Democratic Regime," in Larry Diamond, Juan J. Linz, and Seymour Martin Lipset, eds., *Democracy in Developing Countries: Latin America* (Boulder, Colo.: Lynne Rienner, 1989), 187–96.

[66] The parallels with Nicaragua are quite striking with regard to regime maintenance and breakdown as illustrated by the following quotation: "The societal-wide effects of corruption and coercion of Anastasio Somoza Garciá between 1936 ad 1956 were constrained in one sense by the limited capabilities of the state apparatus. . . . But the growth of the state apparatus after his assassination meant that similar political behavior would have magnified and more generalized consequences. . . . In short, the somocista dictatorship became less tolerable because of the growing efficiency of the state apparatus as an instrument of graft

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leaders in both countries to extend the period of military rule far beyond the limits that are usually imposed by both domestic and international constraints. Haiti under the Duvaliers also fits comfortably within this subset of durable authoritarian regimes, since its military institution derives from a national guard established under U.S. occupation.[67]

In the final analysis, it is a relatively unique combination of case-specific international economic opportunities and domestic institutional structures that best seem to account for the long-term maintenance of Panama's military regime. This particular combination of opportunities and institutional structures may be partially replicated in other countries within the Caribbean Basin, but probably not in South America. However, depending on the performance of Panama's new civilian government, the combination may one day be reproduced in Panama again.

and coercion." Stephen M. Gorman, "Social Change and Political Revolution: The Case of Nicaragua," in Ropp and Morris (fn. 15), 51.

[67] There are also some important differences in these three cases. For example, the Somozas appear to have had less opportunity to extract resources from their international economic environment and thus were forced to derive most of their wealth from the domestic economy. During the 1970s, this led to increased tension between the business class and the regime, which eventually contributed to the regime's downfall. Booth (fn. 64), 97–103.

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DOMESTIC STRUCTURE AND PREVENTIVE WAR

Are Democracies More Pacific?

By RANDALL L. SCHWELLER*

THE development of new democratic regimes that began a decade ago as a trickle in Latin America is now a global tidal wave. Not surprisingly, this increase in the number of democratic states had led to a renewed scholarly interest in the well-known but controversial hypothesis that democratic states are more pacific than nondemocratic states.[1] To date, empirical analyses of this hypothesis have been inconclusive, providing "ammunition to both schools of thought."[2]

The data-driven nature of much of the literature may explain the lack of consensus among studies on regime type and war. Searching for empirical regularities without the aid of a well-developed theoretical framework to guide the analysis, most of these studies do not (1) hold constant variables other than regime type that may influence war, (2) specify and investigate plausible causal linkages, and (3) disaggregate the dependent variable (external behavior) to specify clearly what is to be explained. Consequently, the research designs may mask significant relationships between domestic structure and war.[3]

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[1] See Zeev Maoz and Nasrin Abdolali, "Regime Types and International Conflict, 1816–1976," *Journal of Conflict Resolution* 33 (March 1989); Dean V. Babst, "A Force for Peace," *Industrial Research* 14 (April 1972); Rudolph J. Rummel, "The Freedom Factor," *Reason* 15 (July 1983); idem, "Libertarianism and International Violence," *Journal of Conflict Resolution* 27 (March 1983); Steve Chan, "Mirror, Mirror on the Wall . . . Are the Freer Countries More Pacific?" *Journal of Conflict Resolution* 28 (December 1984); Melvin Small and J. David Singer, "The War-Proneness of Democratic Regimes, 1816–1965," *Jerusalem Journal of International Relations* 1 (Summer 1976); and Erich Weede, "Democracy and War Involvement," *Journal of Conflict Resolution* 28 (December 1984).

[2] Maoz and Abdolali (fn. 1), 31.

[3] For an extensive discussion on the inadequacy of many research designs in quantitative international politics, see Benjamin A. Most and Harvey Starr, *Inquiry, Logic, and International Politics* (Columbia: University of South Carolina Press, 1989), chaps. 3–5. For a similar argument, see Jack S. Levy, "The Diversionary Theory of War: A Critique," in Manus I. Midlarsky, ed., *Handbook of War Studies* (Boston: Unwin Hyman, 1989), 282–83. It must be pointed out, however, that Levy intentionally limits his critique of the "quantitative empirical literature" to those studies on the relationship between internal and external conflict, which he calls "basically descriptive correlational analyses."

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These shortcomings of correlational methodologies applied to highly aggregated data suggest that restricting the analysis to a particular type of war and set of initial conditions may lead to more conclusive findings. This paper therefore focuses on cases involving an ongoing power shift (the initial condition held constant) to discover how domestic structure affects the initiation of preventive war.

The concept of preventive war refers to those wars that are motivated by the fear that one's military power and potential are declining relative to that of a rising adversary.[4] According to this broad definition, states wage preventive wars for either offensive or defensive reasons: to take advantage of a closing window of opportunity or to prevent the opening of a window of vulnerability. Moreover, statesmen may rationally choose preventive war with little or no hope of victory if the expected costs of peace are thought to be even higher, for instance, when war is seen as inevitable and when, due to a declining power gradient, it is better to fight now than later. Japan's decision to initiate a war against the U.S. exemplifies this.[5]

Above all, preventive wars are "wars of anticipation," and therefore their justification, if any is given, can rest only upon the inherently unprovable assumptions of human foresight. As the Abbe Galiani (1728–87) posited: "The misfortunes of mankind derive from foresight . . . the actual cause of wars. Because one foresees that the House of Hapsburg will increase, because the French, a hundred years from now, will do such a thing, we begin to cut one another's throats right now."[6]

The theoretical significance of preventive war derives from a central

[4] Jack S. Levy, "Declining Power and the Preventive Motivation for War," *World Politics* 40 (October 1987), 87. See also Richard Ned Lebow, "Windows of Opportunity: Do States Jump through Them?" *International Security* 9 (Summer 1984); idem, *Between Peace and War* (Baltimore: Johns Hopkins University Press, 1981), 261–63, 265; Alfred Vagts, *Defense and Diplomacy* (New York: King's Crown Press, 1956), 263–350; Robert Jervis, "Cooperation under the Security Dilemma," *World Politics* 30 (January 1978); Stephen Van Evera, "Causes of War" (Ph.D. diss., University of California, Berkeley, 1984), 72–76; Jack L. Snyder, "Perceptions of the Security Dilemma in 1914," in Robert Jervis, Richard Ned Lebow, and Janice Gross Stein, eds., *Psychology and Deterrence* (Baltimore: Johns Hopkins University Press, 1985), 160–61; Emerson M. S. Niou and Peter C. Ordeshook, "Preventive War and the Balance of Power: A Game-Theoretic Approach," *Journal of Conflict Resolution* 31 (September 1987).

[5] The logic of expected-utility theory posits that states go to war simply when they expect to do better than they would by remaining at peace. See Bruce Bueno de Mesquita, "The War Trap Revisited," *American Political Science Review* 79 (March 1985); idem, "The Contribution of Expected Utility Theory to the Study of International Conflict," *Journal of Interdisciplinary History* 18 (Spring 1988). Using the logic of expected-utility theory, Scott D. Sagan argues that, contrary to conventional wisdom, the Japanese decision to initiate war against the U.S. was rational. See Sagan, "The Origins of the Pacific War," *Journal of Interdisciplinary History* 18 (Spring 1988).

[6] The Abbe Galiani, as cited in Vagts (fn. 4), 263.

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and age-old theme of international politics, that uneven rates of growth are the fundamental cause of both war and change in the international system. In addition, preventive war figures prominently in traditional balance of power theory as an essential means of preserving the delicate and dynamic balance. Indeed, balance among the Great Powers, according to equilibrist theory, results from statesmen's constant attention to power shifts and from their perpetual readiness to intervene with force, when necessary, to prevent disequilibrium.[7]

Theorists disagree, however, on the casual links between power shifts and war. Robert Gilpin sees preventive action as "the most attractive response" for a declining dominant power: "When the choice ahead has appeared to be to decline or to fight, statesmen have most generally fought." Similarly, Jack Levy writes: "Statesmen have often convinced themselves that war will reverse or retard the rising military power of the adversary . . . and history provides few examples of states' nonviolent acceptance of their national decline."[8] Conversely, A. F. K. Organski and Jacek Kugler appear to rule out preventive action altogether, arguing that recent history shows that rising dissatisfied challengers have initiated wars against leading nations "long before they equaled them in power."[9]

Because a power shift is neither a necessary nor a sufficient condition for war and only a necessary condition for preventive war,[10] the debate on the identity of the aggressor seems misplaced. Instead, the more im-

[7] For a discussion of balance of power and preventive war, see Robert E. Osgood and Robert W. Tucker, *Force, Order, and Justice* (Baltimore: Johns Hopkins University Press, 1967), 97–100; François Fénelon, "Supplément à l'examen de conscience," in Fénelon, *Écrits et lettres politiques*, ed. Charles Urbain (Paris: Editions Bossard, 1920), 80–83; Edward Vose Gulick, *Europe's Classical Balance of Power* (New York: W. W. Norton, 1955), 33–37.

[8] Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 191; Levy (fn. 4), 97.

[9] Organski and Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980), 13–63; A. F. K. Organski, *World Politics*, 2d ed. (New York: Alfred A. Knopf, 1968), 371. For other examples of theories of power transition, see George Modelski, "The Long Cycle of Global Politics and the Nation-State," *Comparative Studies in Society and History* 20 (April 1978); Charles F. Doran and Wes Parsons, "War and the Cycle of Relative Power," *American Political Science Review* 74 (December 1980); and Joshua S. Goldstein, *Long Cycles: Prosperity and War in the Modern Age* (New Haven: Yale University Press, 1988), chap. 12. Goldstein argues that periods of sustained growth in world production lead to Great Power wars initiated by challengers who "try to 'catch up' with the leading economic and military power" (p. 277).

[10] Levy (fn. 4), 86. Although I will refer to shifts in the actual distribution of power, the *perception* of a damaging power shift, real or imagined, is more precisely the necessary condition to motivate a preventive war. As William C. Wohlforth points out, "If 'power' influences international relations, it must do so through the perceptions of those who act on behalf of states. The quantitative measures of power used in the literature to test various power theories are thus estimators of perceived power." See Wohlforth, "The Perception of Power: Russia in the Pre-1914 Balance," *World Politics* 39 (April 1987), 353.

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portant theoretical puzzle is, Why do some power shifts result in preventive war while others do not? The fact that structural theory alone cannot explain this variance suggests that an auxiliary "second-image" hypothesis may be required to make more determinate predictions.

Accordingly, this article bridges factors at the systemic and domestic levels of analysis in an attempt to construct a theory that yields more determinate predictions of power-shift outcomes. It will be shown that only nondemocratic regimes wage preventive wars against rising opponents. Declining democratic states, for a variety of reasons that will be discussed, do not exercise this option. Instead, when the challenger is an authoritarian state, declining democratic leaders attempt to form counterbalancing alliances; when the challenger is another democratic state, they seek accommodation.

The aims of this essay, then, are twofold: (1) to provide a partial but important answer to the question, Are democracies more pacific? and (2) to contribute to our understanding of how states react to a decline in their relative power.

Domestic Structure and War

Are liberal states more pacific than nonliberal states? Observing that all nations engage in war, most realists reject this proposition,[11] arguing that differences in domestic structure are overridden by the anarchic international structure in which all states exist.[12] Thus Waltz maintains, "With many sovereign states, with no system of law enforceable among them, with each state judging its grievances and ambitions according to the dictates of its own reason or desire—conflict, sometimes leading to war, is bound to occur."[13]

Yet political theorists as diverse as Kant, Schumpeter, and Woodrow Wilson contend that democracies are less belligerent than autocracies. The fact that no wars have been fought between democratic states since 1789 supports this proposition. Furthermore, during the past two centuries democratic states have never been on opposite sides in any general war involving all or most of the Great Powers. These findings have

[11] Henry Kissinger is perhaps the most notable exception. See Henry A. Kissinger, "Domestic Structure and Foreign Policy," *Daedalus* 95 (Spring 1966), 503–29, reprinted in idem, *American Foreign Policy* (New York: W. W. Norton, 1977), 11–50; and idem, *A World Restored* (New York: Grosset and Dunlap, 1964).

[12] Here anarchy means not conflict but rather the absence of a sovereign arbiter to make and enforce agreements.

[13] Kenneth N. Waltz, *Man, the State, and War* (New York: Columbia University Press, 1959), 159. For his discussion of the inadequacy of "second image" explanations of war, see pp. 120–23.

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prompted one scholar to conclude that "the absence of war between democracies comes as close as anything we have to an empirical law in international relations."[14]

Nevertheless, few theorists support Rummel's assertion that "in a nutshell, what social science has found is that *the more freedom a state has, the less its internal and foreign violence.*"[15] To the contrary, most researchers have found no relationship between regime type and war involvement or initiation.[16] Most notably, Michael Doyle concludes that while a Kantian "pacific union" seems to exist among democratic states, their tacit nonaggression pact has not extended to nondemocratic states: "*The very constitutional restraint, shared commercial interests, and international respect for individual rights that promote peace among liberal societies can exacerbate conflicts between liberal and nonliberal societies.*"[17]

A recent study by Steve Chan, however, offers some evidence in support of the freedom-promotes-peace proposition. Chan found that the validity of the proposition varies according to how the researcher operationalizes the dependent variable (that is, war, violence, conflict, all wars, interstate wars only, extrasystemic wars, and so forth). When the analysis focuses on dyadic relationships and excludes extrasystemic wars (that is, colonial or imperialist wars), democratic states appear to be more pacific than nondemocratic states, but the finding is not statistically significant.[18] Nevertheless, though Chan does not raise the issue, his research suggests that while domestic structure may not have an effect on

[14] Jack S. Levy, "Domestic Politics and War," *Journal of Interdisciplinary History* 18 (Spring 1988), 662. Maoz and Abdolali (fn. 1) found that "democracies rarely clash with one another, and never fight one another in war" (p. 3). For similar statements, see Michael W. Dolye, "Kant, Liberal Legacies, and Foreign Affairs, Part 1," *Philosophy and Public Affairs* 12 (Summer 1983), 213–15; Babst (fn. 1), 55; Rummel (fn. 1, July 1983); idem (fn. 1, March 1983), 28–29; Chan (fn. 1). Small and Singer (fn. 1) also find that democracies do not fight against one another, but they do not attribute this to the inherent peacefulness of democracies or to a "pacific union" among them. Instead, they suggest that the dearth of contiguous democratic states since 1816 explains the long liberal peace (p. 67).

[15] Rummel (fn. 1, July 1983), 34; emphasis in original.

[16] Weede (fn. 1); Small and Singer (fn. 1); P. J. McGowan and H. B. Shapiro, *The Comparative Study of Foreign Policy* (Beverly Hills, Calif.: Sage, 1973), 94; Dina Zinnes, "Why War? Evidence on the Outbreak of International Conflict," in T. R. Gurr, ed., *Handbook of Political Conflict* (New York: Free Press, 1980), 331–60.

[17] Michael W. Doyle, "Kant, Liberal Legacies, and Foreign Affairs, Part 2," *Philosphy and Public Affairs* 12 (Fall 1983), 324–25; emphasis in original. See also idem, "Liberalism and World Politics," *American Political Science Review* 80 (December 1986). For insightful analysis of Kant's theory of the "Eternal Peace" from a realist perspective, see Kenneth N. Waltz, "Kant, Liberalism, and War," *American Political Science Review* 56 (June 1962).

[18] Chan (fn. 1). However, Maoz and Abdolali (fn. 1) find that "as the proportion of democratic-democratic interaction opportunities increased, so did the level of conflict in the system. On the other hand, the correlations between the proportion of autocratic-autocratic interaction opportunities and the same dispute measures were slightly negative, but . . . statistically insignificant" (p. 26).

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aggregate war "involvement," perhaps democratic states do not initiate certain types of dyadic interstate wars as easily or as often as nondemocratic states.

Democracy and Preventive War

Operationalizing the Concept of Democracy

Although definitions of democratic regimes vary somewhat throughout the literature, most include the core elements offered by Singer and Small: (1) scheduled elections held periodically with free participation of opposition parties, in which (2) at least 10 percent of the adult population is able to vote for (3) a parliament that either controls or enjoys parity with the executive branch. Doyle's definition of "representative government" raises minimum suffrage, I believe correctly, to at least 30 percent and requires the government to be (4) internally sovereign over military and foreign affairs and (5) stable, that is, in existence for at least three years.[19]

In addition to political rights, an ideal measure of "liberal" democracy should include economic freedom and civil liberties.[20] Thus, I add two more ingredients: (6) private property and a free-enterprise economy and (7) citizens who possess juridical rights.[21] Taken together, these seven components approximate our commonsense notion of what constitutes a democratic state.

Liberal Public Opinion and the Preventive Motivation for War

Kant wrote that despots—for whom war did not require the least sacrifice—may "resolve for war from insignificant reasons, as if it were but a

[19] Singer and Small (fn. 1), 55; Doyle (fn. 14), 212. Specifically, Doyle's definition requires male suffrage of at least 30% and female suffrage to be granted within a generation of its initial demand.

[20] Weede (fn. 1) disagrees, stating that "economic freedom is usually not part of definitions of democracy" (p. 655). But the current democratization of Eastern Europe and the Soviet Union seems to demonstrate that, in addition to political freedom, a market and private-property economy may be an indispensable ingredient of democracy.

It is important to note, however, that the addition of juridical rights and economic freedom to the definition of democracy *has had no effect on the coding (democratic or nondemocratic) of the cases in this study*, as all politically free states also contained both of these elements.

[21] Rummel defines freedom in the expansive sense as economic freedom plus political freedom (civil liberties plus political rights). See Rummel (fn. 1, March 1983), 30–31. Doyle (fn. 14) refers to the institution of a market and private-property economy in his definition of a "liberal regime" (p. 212). A liberal democracy obviously implies both economic and political freedom.

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hunting expedition."[22] But where "the consent of the citizens is required in order to decide whether there should be war or not, nothing is more natural than that those who would have to decide to undergo all the deprivations of war will very much hesitate to start such an evil game."[23]

This is not to suggest that democracies never initiate wars; clearly the empirical record indicates they do. The key, as Kant suggests, is the public's expectation of the costs of war. That is, as I will argue below, a model of liberal democratic domestic structures as determinants of decisions about war and peace must include as model-based features the relative power resources of the states involved.

In wars waged against weak opponents, in which the average citizen expects painless victory, there is no reason to believe that public opinion will make democratic states more pacific than nondemocratic states. As we know, democratic states have on many occasions attacked far weaker opponents, and an impassioned citizenry often promoted and prolonged such wars. Many of these interventions, moreover, though not motivated by the fear of a power transfer, where in response to power shifts: an increase in the relative capability of a small state threatened the interests, imperial or otherwise, of the dominant democratic power(s). Thus, for example, the British attack against Egyptian nationalist forces in 1882 qualifies in a technical sense as a preventive action but not, given the small number of battle deaths, as a preventive war.[24] Regarding this case, A. J. P. Taylor comments on French inaction and adds, significantly, "As so often, French public opinion would tolerate the defence of imperial interests only so long as it involved neither expense nor the diversion of forces from Europe."[25]

[22] Kant, "Eternal Peace," quoted in Waltz (fn. 17), 333.

[23] As quoted in Carl Friedrich, *The Philosophy of Kant: Immanuel Kant's Moral and Political Writings* (New York: Modern Library, 1977), 438.

[24] I am using the definition of war developed by the Correlates of War (cow) Project, which requires at least 1,000 battle deaths to members of the interstate system. Under this definition the cow project has identified 118 international wars for the 1816–1980 period, of which 67 are interstate wars and 51 are extrasystemic wars. See Melvin Small and J. David Singer, *Resort to Arms: International and Civil Wars, 1816–1980* (Beverly Hills, Calif.: Sage, 1982). The major empirical studies of warfare differ in their definitions of war, however. For an excellent discussion of how these differences affect the data sets and conclusions of the studies, see Edward D. Mansfield, "The Distribution of Wars over Time," *World Politics* 41 (October 1988).

[25] Taylor, *The Struggle for Mastery in Europe, 1848–1918* (Oxford: Oxford University Press, 1954), 289. See also Michael W. Doyle, *Empires* (Ithaca, N.Y.: Cornell University Press, 1986), 208–18. Doyle draws a clear distinction between imperial control (metropole over empire) and international control (dominant state over weaker state): the former involves extensive control over the sovereignty—the internal/domestic policy and external/foreign policy—of the subordinate periphery, whereas the latter involves only some external control. In short,

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Conversely, as Kant suggests, public opinion inhibits democratic state actors from initiating wars expected to be of great risk and cost, that is, wars that require universal conscription, an increased tax burden to support rearmament, conversion to a wartime economy, and the loss of many lives. Added to the high-risk stakes that make wars against a formidable adversary so unpalatable to a democratic public is the peculiar logic of "preventive war": plunging into an unprovoked war now to avoid the risks of war under worse circumstances later.

Thus, Bernard Brodie remarks, "A policy of preventive war has always been 'unrealistic' in the American democracy" because "war is generally unpopular, and the public mood inclines to support really bold action only in response to great anger or great fright. The fright must be something more dramatic than a sudden new rise in [the adversary's] capability."[26] Jean-Baptiste Duroselle offers some empirical support, maintaining that "since 1815 [French] public opinion . . . has always exerted power in the direction of caution in foreign affairs. . . . In all, between 1815 and 1940 one cannot discern in France a single occasion when public opinion had literally forced the government to adopt a [foreign] policy involving risk."[27]

In addition, the competitive political environment defining democratic systems (regularly scheduled elections against opposition parties) deters politicians from starting costly wars. As Bruce Bueno de Mesquita and David Lalman assert, "The very need to resort to force suggests a political failure by the national leadership, creating openings for opposition factions."[28] When the costs of war are expected to be felt throughout society, incumbents will be especially fearful of what Anthony Downs terms a "passionate majority" forming against such action.[29] Hence, prior to risking the high domestic political costs of large-scale war, democratic elites require something more than the assumption of a potential future threat based on the projection of an irreversible decline in relative power. Instead, driven by the necessity of securing enough votes to remain in

international politics, the focus of the present study, is quite different from imperialism in terms of the power relationships characterizing the two systems (chap. 1).

[26] Brodie, *Strategy in the Missile Age* (Princeton: Princeton University Press, 1965), 237, 239.

[27] Duroselle, "Changes in French Foreign Policy since 1945," in Stanley Hoffman et al., eds., *In Search of France* (Cambridge: Harvard University Press, 1963), 307–8.

[28] Bueno de Mesquita and Lalman, "Domestic Opposition and Foreign War," *American Political Science Review* 84 (September 1990), 752.

[29] Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957), 64–68. This facet of my argument—that democratic public opinion and institutions militate against preventive war directed at strong but not weak opponents—is consistent with Downs's theory.

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office, incumbents insist upon evidence of a clear and present danger and usually require several provocations.

The public's aversion to the high cost of war also contributes to the political exhaustion and isolationism that often afflict democratic states, especially after prolonged conflict. David Hume termed this "a careless and supine complaisance," which he contrasted to the "prudent politics" required of the balance of power.[30] Likewise, Adam Smith lamented that "commerce . . . sinks the courage of mankind, and tends to extinguish the martial spirit. . . . By having their minds constantly employed on the arts of luxury, they grow effeminate and dastardly."[31] Exemplifying this "liberal complaisance," democratic public opinion invariably resists universal and compulsory military service during peacetime and opts instead for a small career army—suitable for policing operations or small wars at the periphery but insufficient for waging preventive war against a strong rising challenger.

Britain, the United States, and France have all exhibited liberal complaisance. The strength of British pacifist public sentiment has been partially responsible for a traditional policy of appeasement,[32] the slow pace of rearmament during the interwar period,[33] and the refusal to use conscripts to fight imperial wars—Britain has often accepted defeat in imperial wars rather than pay the domestic costs of instituting a draft.[34]

Similarly, Americans have always rejected a military system based on universal peacetime conscription. On June 2, 1784, the Continental Congress disbanded the only remaining regular U.S. military force, agreeing with Elbridge Gerry that "standing armies in time of peace are inconsistent with the principles of republican Governments, dangerous to the

[30] Hume, "Of the Balance of Power," in Hume, *Essays: Moral, Political, and Literary (1741–1742)* (Oxford: Oxford University Press, 1963), 346–47. For the "complaisance" of liberal Great Powers, see Doyle (fn. 17, 1983), 323, 337–38. For the internal causes of declining power, see Gilpin (fn. 8), 159–68.

[31] Smith, *Lectures on Jurisprudence* (1766; reprint, Oxford: Oxford University Press, 1978), 540.

[32] See, e.g., Paul M. Kennedy, "The Tradition of Appeasement in British Foreign Policy, 1865–1939," in Kennedy, *Strategy and Diplomacy, 1870–1945: Eight Studies* (London: Allen and Unwin, 1983), 15–39.

[33] For instance, in response to Churchill's accusation that Baldwin had acted irresponsibly by not proposing a greater rearmament effort in 1935, the prime minister responded: "Supposing I had gone to the country and said that Germany was rearming and we must rearm, does anyone think that this pacific democracy would have rallied to that cry at that moment? I cannot think of anything that would have made the loss of the election from my point of view more certain." Prime Minister Stanley Baldwin, speech in the House of Commons, quoted in Gordon A. Craig and Alexander L. George, *Force and Statecraft: Diplomatic Problems of Our Time*, 2d ed. (New York and Oxford: Oxford University Press, 1990), 64.

[34] Eliot A. Cohen, *Citizens and Soldiers: Dilemmas of Military Service* (Ithaca, N.Y.: Cornell University Press, 1985), 115.

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liberties of a free people, and generally converted into destructive engines for establishing despotism."[35] Even after attaining superpower status (taking on unprecedented global commitments and permanently stationing troops on foreign soil), the United States, unlike its nondemocratic superpower rival, did not institute universal and compulsory peacetime conscription. Changing demographic and economic trends, however, may soon force the U.S. to either reduce its overseas commitments or adopt a peacetime draft.[36] Strong public opposition to the draft during the Vietnam War suggests that politicians will no doubt choose retrenchment over compulsory military service.

Surprisingly, geographically vulnerable France, not an insular state like Britain and the U.S., has also suffered from liberal complaisance. After the Austro-Prussian War, the French public thwarted proposed military reforms that called for universal and compulsory service to meet the Prussian challenge. Consequently, as the fateful year of 1870 arrived, French forces were outnumbered by the Prussian *Landwehr* three to one and were easily defeated in 1871.[37] Similarly, during the 1930s France spent far less of its GNP on rearmament than did the Third Reich, and it chose a defensive strategy—retirement behind the safety of the Maginot Line—to offset the projected numerical superiority of German troops. Once again, the French military effort fell victim to the more powerful German land and air forces.

As these cases suggest, liberal complaisance often leaves states militarily unprepared for defensive action, much less large-scale preventive action. In Samuel Huntington's words, "Liberalism does not understand and is hostile to military institutions and the military function."[38]

In addition, democratic public opinion generates an institutional heritage of openness and division of powers that inhibits the preventive motivation for war. In 1949 George Kennan declared: "[A] democratic society cannot plan a preventive war. Democracy leaves no room for

[35] Elbridge Gerry, as quoted in Samuel P. Huntington, *The Soldier and the State: The Theory and Politics of Civil-Military Relations* (Cambridge: Harvard University Press, 1967), 144.

[36] For a discussion of America's military manpower dilemma, see Cohen (fn. 34), 183–89.

[37] For the best discussions of French military reforms after Sadowa, see Richard D. Challener, *The French Theory of the Nation in Arms, 1866–1939* (New York: Russell and Russell, 1965); Arpad F. Kovacs, "French Military Institutions before the Franco-Prussian War," *American Historical Review* 51 (January 1946); Gordon Wright, "Public Opinion and Conscription in France, 1866–70," *Journal of Modern History* 14 (March 1942); and Michael Howard, *The Franco-Prussian War: The German Invasion of France, 1870–71* (New York: Macmillan, 1962), 29–39.

[38] Huntington (fn. 35), 144.

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conspiracy in the great matters of state."[39] Years later he contended that a sharp division of powers rules out "the privacy, the flexibility, and the promptness and incisiveness of decision and action, which have marked the great imperial powers of the past and which are generally considered necessary to the conduct of an effective world policy by the rulers of a great state."[40]

Similarly, the separation of powers represented by civilian control of military planning checks the military's institutional preference for offensive doctrine, which is necessary to fight preventive wars.[41] "The problem of the separation of powers as conducive either to peace or war has been much neglected," observes Alfred Vagts. "Where political and military responsibility have not been clearly separated, the great makers of preventive war—Louis XIV, Frederick the Great, Napoleon I, Hitler—have been able to hold sway."[42]

Finally, due to the strength of public opinion, the policies of a democratic state, in contrast to those of an autocracy, must ultimately conform to the moral values of that society.[43] Ironically, liberalism's humanitarian impulse sometimes results in a belligerent public pressuring more cautious leaders into war. During the Crimean War, for example, a hawkish British public clamored for war to liberate the Turks from their Russian oppressors. Similarly, the American public's great anger and moral outrage over Spanish atrocities against Cubans, the de Lôme letter, and the sinking of the Maine forced McKinley to start "a war which he did not want for a cause in which he did not believe."[44] It is important to note,

[39] Kennan, January 19, 1949, lecture to Foreign Service Institute, Kennan Papers, box 17, Seeley Mudd Library, Princeton University. Quoted in John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy* (Oxford: Oxford University Press, 1982), 49.

[40] Kennan, *The Cloud of Danger* (Boston: Little, Brown, 1977), 4.

[41] For the institutional preference of military organizations for offensive doctrines, see Barry R. Posen, *Sources of Military Doctrine: France, Britain, and Germany between the World Wars* (Ithaca, N.Y.: Cornell University Press, 1984), 47–50; for the necessity of an offensive doctrine in order to wage a preventive war, see pp. 69–70.

[42] Vagts (fn. 4), 264.

[43] Although he is inconsistent on this point, even Hans Morgenthau has written that the national interest of a state must be constrained by its own morality. See Morgenthau, *In Defense of the National Interest* (New York: Alfred A. Knopf, 1952), 36–37; and idem, "Letter to the editor," *International Affairs* 35 (October 1959), 502. See also Kenneth W. Thompson, *Political Realism and the Crisis of World Politics* (Princeton: Princeton University Press, 1960), 167. For a discussion of the skepticism of political realists about international morality, see Charles R. Beitz, *Political Theory and International Relations* (Princeton: Princeton University Press, 1979).

[44] Ernest R. May, *Imperial Democracy: The Emergence of America as a Great Power* (New York: Harcourt, Brace and World, 1961), 159. May clearly distinguishes between the humanitarianism that produced the war and the imperialism that grew out of it.

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however, that the jingoism of the American Populist-Progressive movement produced—even at its height in the 1890s—"only a small war and a quick victory," in the words of Richard Hofstadter. And afterward "a great many Americans who had responded with enthusiasm to the war against Spain as a crusade to liberate underdogs in Cuba . . . became as ardently anti-imperialist as they had been pro-war."[45]

What concerns us here, however, is that citizens of governments founded on the enlightenment principles of individual liberty and the pursuit of happiness are naturally repulsed by the unethical and immoral aspects of preventive war, as it implies the unprovoked slaughter of countless soldiers—and, in the nuclear age, millions of innocent civilians—on the mere assumption that future safety requires it.[46] And if this moral indignation holds for preventive wars based on "anticipatory self-defense," it is doubly so for offensive preventive wars—those driven by the desire to jump through a closing window of opportunity. Such predatory wars, whose aims are national glory, economic gain, or territorial acquisition, find no basis in liberal principles of morality and justice. Rather, "just wars," according to Rawls, are those waged in self-defense "to preserve and maintain just institutions and the conditions that make them possible."[47]

To be morally comprehensible, however, even wars undertaken for reasons of anticipatory self-defense must be founded upon what Bacon calls "just fear":

> [Regarding the King's] neighbours: there can no general rule be given (the occasions are so variable), save one, which ever holdeth, which is, that princes do keep due sentinel that none of their neighbours do overgrow so

[45] Hofstadter, *The Age of Reform* (New York: Alfred A. Knopf, 1965), 93, 271. See also Frederick Merk, *Manifest Destiny and Mission in American History* (New York: Vintage Books, 1963). Merk concludes that the true expression of the national spirit has always been mission, not imperialism, manifest destiny, or continentalism.

[46] For Brodie's discussion of the moral issue of preventive war, see Brodie (fn. 26), 236–37; for his discussion of why preventive war has always been an unrealistic policy for the U.S., see pp. 223–41. Morgenthau also acknowledges that preventive war is "abhorrent to democratic public opinion" and states:

> It is especially in the refusal to consider seriously the possibility of preventive war, regardless of its expediency in view of the national interest, that the moral condemnation of war as such has manifested itself in recent times in the Western world. When war comes, it must come as a natural catastrophe or as the evil deed of another nation, not as a foreseen and planned culmination of one's own foreign policy. Only thus might the moral scruples, rising from the violated moral norm that there ought to be no war at all, be stilled, if they can be stilled at all.

See Morgenthau, *Politics among Nations: The Struggle for Power and Peace*, 4th ed. (New York: Alfred A. Knopf, 1967), 203, 232.

[47] John Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), 379. See also R. B. Potter, *War and Moral Discourse* (Richmond, Va.: John Knox Press, 1969).

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> (by increase in territory, by embracing trade, by approaches, or the like) as they become more able to annoy them than they were. . . . Neither is the opinion . . . to be received, *that a war cannot justly be made, but upon a precedent injury or provocation.* For there is no question, but a just fear of an imminent danger, though no blow be given, is a lawful cause of war.[48]

Since to be afraid is not the same as actually to be threatened, however, Bacon's formulation raises the question, What constitutes a "just fear"?

In what is now regarded as the locus classicus of self-defense, U.S. Secretary of State Daniel Webster argued in the *Caroline* case of 1842 that "just fear" requires "a necessity of self-defense . . . instant, overwhelming, leaving no choice of means, and no moment for deliberation."[49] Webster's principles of self-defense, adopted by the International Military Tribunal at Nuremberg,[50] acknowledge the moral legitimacy of preemptive war but not preventive war, as the former requires clear demonstration of the threatening intentions of the adversary and the latter does not.[51]

Consistent with Webster's notion of strictly reflex anticipatory self-defense, the twentieth-century version of the classic Christian doctrine of *bellum justum* does not include preventive war.[52] Similarly, the United Nations Charter contains an extremely restrictive view of the right to exercise force in self-defense, focusing on actual or imminent boundary crossings. By narrowly defining a victim of aggression such that a threatened state cannot be said to be forced to fight unless the necessity is both obvious and urgent, international law intends to outlaw anticipatory acts of self-defense.[53]

[48] Francis Bacon, "Of Empire," in Sidney Warhaft, ed., *Francis Bacon: A Selection of His Works* (New York: Macmillan, 1985), 94–95; emphasis in original.

[49] Daniel Webster, quoted in Derek W. Bowett, *Self-Defense in International Law* (New York: Frederick A. Praeger, 1958), 59.

[50] The International Military Tribunal at Nuremberg stated: "It must be remembered that preventive action in foreign territory is justified only in case of an 'instant and overwhelming necessity for self-defense, leaving no choice of means and no moment for deliberation' (Caroline Case)." Quoted in Bowett (fn. 49), 60.

[51] The meaning of a preemptive attack is somewhat ambiguous. It sometimes implies that the preemptor is aware of an imminent enemy attack and thus is compelled to strike the first blow. At other times it refers to an "anticipatory counterattack" waged after the adversary's attack has been launched but before its impact has been felt. Under both definitions, the existence of an immediate threat and a very short time frame for decision making characterizes a preemptive attack; a preventive attack, by contrast, is motivated by long-term forecasting.

[52] The classic doctrine of *bellum justum* did, however, include preventive war. See Osgood and Tucker (fn. 7), 292.

[53] See Michael Walzer, *Just and Unjust Wars* (New York: Basic Books, 1977), 62. See also Osgood and Tucker (fn. 7), 296–97. The issue of whether preventive war can ever be included in the doctrine of the just war is far more complicated than the schematic treatment I am able to offer here. For a comprehensive discussion of this matter, see Robert W. Tucker, *The Just War: A Study in Contemporary American Doctrine* (Baltimore: Johns Hopkins Press, 1960),

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The reluctance of the public to sanction the use of force for preventive actions has produced, in effect, a gulf between what realpolitik requires of statesmen and what democratic leaders, for domestic reasons, are capable of doing. In part, this disparity emerges from the conflicting ways in which realists and the public conceptualize international politics.

From the realist perspective, the legitimacy of preventive war rests on the notion that international politics is analogous to a Hobbesian state of nature, in which, for reasons of self-preservation, all states have a right to fight.

The public, however, does not think in terms of this analogy. Instead, it conceives international politics as an extension of liberal domestic society: "Public opinion," Bismark complained, "is only too ready to consider political relations and events in the light of those of civil law and private persons generally. . . . [This] shows a complete lack of understanding of political matters."[54]

In summary, the strength of public opinion in democratic states generates a complex of factors that lessens the motivation to enter into preventive war. Unlike their authoritarian counterparts, democratic states lack the large conscript armies, flexibility, decisiveness, and cold logic required to act solely out of considerations of realpolitik. The pacific effect of public opinion is somewhat contingent, however, on the expectation that the war will be costly. Consequently, the argument presented here concerns only power shifts between states of roughly equal strength; it is not relevant to all power shifts, for example, the case of the relative decline of a large state vis-à-vis a much smaller state.

The Hypotheses

I have argued that preventive war is an unrealistic policy for declining democratic leaders. If this is so, the assertion, explicit in Gilpin and implicit in Levy, that preventive war is "the most attractive response" for declining leaders applies only to nondemocratic regimes, and we might expect the following (see Figure 1):

1. A power transition involving a declining democratic leader is both a necessary and a sufficient condition for the absence of preventive war.
    a. When a declining democratic leader confronts a rising democratic challenger, accommodation results.

15, 71, 105–45. For a rebuttal to Tucker's argument, see Paul Ramsey, *The Just War: Force and Political Responsibility* (New York: Charles Scribner's Sons, 1968), 61–69.

[54] Otto von Bismarck, quoted in Walzer (fn. 53), 63.

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b. When a declining democratic leader confronts a rising nondemocratic challenger, the leader tries to form a defensive alliance system to counterbalance the threat.

2. A power transition involving a declining nondemocratic leader is a necessary but not sufficient condition for a preventive war, regardless of the regime type of the challenger.

Declining Nondemocratic Leaders

As shown in Figure 1, the general hypothesis posits that *only* authoritarian regimes initiate preventive war and that they do so whether the challenger is democratic or authoritarian.[55] From an empirical standpoint, the evidence is overwhelming: every preventive war launched by a Great Power—from Sparta's response to its fear of the growth in Athenian power to Nazi Germany's attack against the Soviet Union—has been initiated by a nondemocratic state. The explanation for this, aside from those factors already mentioned, resides in the difference between the state institutions of authoritarian and constitutional regimes.

The compulsory nature of authoritarian rule shapes the institutions of the state in ways conducive to the initiation of preventive war. State in-

Rising Challenger	Declining Leader: Democratic	Declining Leader: Nondemocratic
Democratic	Leader accommodates to challenger's rise	Leader wages a preventive war
Nondemocratic	Leader tries to form a defensive alliance system	Leader wages a preventive war

Figure 1

[55] This is not to say that whenever a nondemocratic state is in the process of being overtaken by a rising challenger it will respond by unleashing a preventive war. In 1866, for example, France did not intervene to prevent either side in the Austro-Prussian War from winning and uniting the loose German confederation under its leadership.

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stitutions in such regimes serve as instruments of coercion and domestic intervention to mobilize and extract human and material resources for the purpose of increasing the power of the state. To accomplish this task, a nondemocratic state finds it necessary to build a large military force for internal repression. In addition, it promotes nationalism and ideological conformity, indoctrinating citizens to sacrifice short-term individual gains for the advancement of long-term national goals. Oftentimes, the state justifies the militarization of society and the atmosphere of terror and spying by promising a utopian society for the distant future.[56]

Barrington Moore observes that authoritarian regimes—in contrast to the dispersion of power characteristic of democratic institutions—emphasize "a strong state to the exclusion of all other social aims and values. Accompanying this is a strictly amoral and technically rational attitude toward political behavior. Anything that strengthens the ruler's power is good, and that is the end of it."[57]

In short, the combination of the militarization of society, glorification of national power, amoral and technically rational approach to politics, and centralized authority characteristic of nondemocratic regimes allows those regimes to fight to maintain their prestige in the international system. Such institutions also arouse fear and suspicion among their neighbors, heightening the security dilemma and the preventive motivation for war, which only an authoritarian state can reasonably contemplate.

Declining Democratic Leaders

democratic leader/democratic challenger

In this situation, the theory predicts accommodation rather than preventive war. Since there has never been a war between democratic states, power shifts between them have not as yet produced a preventive war. Instead, democratic states have formed a "pacific union," a tacit nonaggression pact among themselves.

One explanation for the liberal peace is that the rules and norms governing the international relations of democratic states reflect the liberal institutions of their domestic societies, not the anarchy of a state of nature. Doyle explains:

[56] Curiously, Engels believed that universal military service would democratize society. He declared in 1891 that "contrary to appearance, compulsory military service surpasses general franchise as a democratic agency." History has proved otherwise, however. See Sigmund Neumann and Mark von Hagen, "Engels and Marx on Revolution, War, and the Army in Society," in Peter Paret, ed., *Makers of Modern Strategy: From Machiavelli to the Nuclear Age* (Princeton: Princeton University Press, 1986), 277–80.

[57] Moore, *Political Power and Social Theory* (New York: Harper and Row, 1958), 77.

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> The basic postulate of liberal international theory holds that states have the right to be free from foreign intervention. Since morally autonomous citizens hold rights to liberty, the states that democratically represent them have the right to exercise political independence.[58]

Another explanation for the pacific union is that democratic states, always vastly outnumbered by nondemocratic states in the international system, band together to remain vigilant to the emergence of a nondemocratic state or coalition with hegemonic aspirations. Accordingly, democratic states welcome absolute and relative increases in the military power of other democratic states, as it strengthens the alliance.

Posing no threat to each other, democratic states tend to view their relationships with other democratic states in positive-sum, rather than zero-sum, terms. This is not to say that a faltering democratic hegemon graciously concedes its leadership to a democratic aspirant; rather, it says that preventive war is never seriously considered, because both states realize that their competition can be mutually beneficial as long as it remains peaceful. Hence, despite the eclipse of its relative power, the declining democratic state is satisfied with an increase in its absolute gains through accommodation with the democratic challenger.

DEMOCRATIC LEADER/NONDEMOCRATIC CHALLENGER

When the power shift involves a nondemocratic challenger, the democratic leader is compelled to react: at stake is not just the latter's place in the international hierarchy but also self-preservation. For the reasons given above, however, the declining democratic power will not wage a preventive war and will have difficulty increasing the size of its peacetime forces. The only remaining policy to counter the threat is forming a defensive alliance system.

Since the dominant power is a democracy, however, attempts at external balancing often fail because (1) the most likely allies are other democratic states, which do not have large peacetime forces to contribute and cannot be counted on to go to war simply to preserve the unwarranted prestige of a declining democratic hegemon, and (2) it is difficult to recruit nondemocratic states to defend the status quo, since they are likely to have their own revisionist claims and are thus likely to seek to reorder

[58] Doyle (fn. 14), 213. By contrast, John Stuart Mill extends the principle of nonintervention to nondemocratic states undergoing a democratic revolution, arguing that intervention is only justified when a democratic state, or aspiring democratic state, is threatened by a foreign government. See Mill, "A Few Words on Non-Intervention," in Mill, *Essays on Politics and Culture*, ed. Gertrude Himmelfarb (Garden City, N.Y.: Doubleday, 1962), esp. 410–13.

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the international system by bandwagoning with, rather than balancing against, the rising challenger.

Yet if a declining democratic power chooses not to rely on the intervention of others but rather to wage a preventive action for reasons of long-term defense, it risks alienating potential democratic allies—as preventive action leaves no doubt about the identity of the initiator and always appears offensive. Given this tension between a preventive-war strategy, on the one hand, and a defensive alliance with other democratic states, on the other, a democratic state will be wary about waging a preventive war if it has any doubts about the outcome (and contests between rising and declining Great Powers are inherently uncertain), since it could find itself a pariah among its erstwhile allies. Hence, coalitions are a deterrent, rather than a stimulus, to preventive war.

The Evidence

In Table 1, I have compiled a list of all Great Power preventive wars since 1665. It is impossible to provide an exhaustive list of all dyadic power shifts, but the sample given in Figure 2 is sufficient to demonstrate a historical pattern. Figure 2 is obtained by plotting on Figure 1 the data in Table 1 (all Great Power preventive wars since 1665) along with a sample of prominent power shifts among the Great Powers that did not result in preventive war.

The good fit of the empirical data and the posited hypotheses, as reflected in Figure 2, suggests strong confirmation of the model's predictions: (1) only nondemocratic regimes have waged preventive wars, and they have done so regardless of the nature of the opponent; (2) declining democratic leaders have accommodated democratic challengers; and (3) declining democratic leaders have attempted to counterbalance rising authoritarian challengers through the formation of defensive alliance systems.

Case Studies

The cases of France and Germany (1933–36) and the U.S. and the USSR (1947–55) are prototypes of the democratic leader confronted by quickly rising and demonstrably threatening nondemocratic challengers. In such cases, realpolitik counsels preventive action to destroy the adversary before it is able to do likewise. In both instances, however, the democratic power ruled out preventive war. These cases may thus be seen as offering strong confirmation of the hypothesis that democratic states are less

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likely to initiate preventive wars than are nondemocratic states. One should ask, Would an authoritarian state facing a similar challenge have done the same?

Although the data presented here have not dealt with small states, I will also examine Israel as a potential outlier case. It will be shown that it is an exception that nonetheless supports the theoretical basis of the model; that is, the unique systemic pressure exerted on Israel explains its deviant foreign policy and military behavior.

The Prototypical Cases

French Reaction to the Nazi Challenge, 1933–36

On March 7, 1936, German troops entered the demilitarized zone of the Rhineland, violating Articles 42 and 43 of the Treaty of Versailles and Articles 1 and 2 of the Treaty of Locarno. France offered no resistance, which allowed Germany, at one stroke, to transform the strategic balance and nullify the last remaining assurance of the 1919 settlement that the next war would be fought on German, not French, soil. In addition, the German move destroyed France's entire East Central European policy, namely, to wage an offensive through the Rhineland to counter a German attack against members of the Little Entente.[59]

According to conventional historiography and the popular impression, the Rhineland crisis marks the turning point in the foreign policy of the interwar period;[60] that is, German remilitarization of the Rhineland offered France its last chance to react forcibly and unilaterally to arrest

[59] See Anthony Tihamer Komjathy, *The Crises of France's East Central European Diplomacy, 1933–1938* (New York: Columbia University Press, 1976); and Arnold Wolfers, *Britain and France between Two Wars: Conflicting Strategies of Peace since Versailles* (New York: Harcourt, Brace, 1940), 95–127.

[60] See Maurice Baumont, "The Rhineland Crisis: 7 March 1936," in Neville Waites, ed., *Troubled Neighbors: Franco-British Relations in the Twentieth Century* (London: Weidenfeld and Nicolson, 1971), 158–69; D. C. Watt, "The Reoccupation of the Rhineland," *History Today* 6 (April 1956); James T. Emmerson, *The Rhineland Crisis: 7 March 1936* (London: Maurice Temple Smith, 1977); R. A. C. Parker, "The First Capitulation: France and the Rhineland Crisis of 1936," *World Politics* 8 (April 1956); W. F. Knapp, "The Rhineland Crisis of March 1936," in James Joll, ed., *The Decline of the Third Republic,* St. Anthony's Papers, no. 5 (London: Chatto and Windus, 1959), 67–85; Gerhard Weinberg, *The Foreign Policy of Hitler's Germany: Diplomatic Revolution in Europe, 1933–36* (Chicago: University of Chicago Press, 1970), 243; Telford Taylor, *Munich: The Price of Peace* (Garden City, N.Y.: Doubleday, 1979). For an impressive dissenting view, see Stephen A. Schuker, "France and the Remilitarization of the Rhineland, 1936," *French Historical Studies* 14 (Spring 1986); Schuker argues that the Rhineland crisis was not a turning point, since by that time Germany was already far stronger than France and Britain combined. Instead, he maintains that the last opportunities to curb German resurgence had occurred in the first half of the decade. Conversely, Williamson Murray concludes that Allied forces could have beaten Germany as late as 1938; see Murray, *The Change in the European Balance of Power, 1938–1939: The Path to Ruin* (Princeton: Princeton University Press, 1984).

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TABLE 1
GREAT POWER PREVENTIVE WARS, 1665–1990

Wars[a]	*Dates*	*Preventer and Regime Type*[b]
1. Anglo-Dutch Naval War	1665–67	Britain/nondemocratic
2. Devolutionary War	1667–68	France/nondemocratic
3. Dutch War of Louis XIV	1672–78	France/nondemocratic
4. Franco-Spanish War	1683–84	France/nondemocratic
5. War of the League of Augsburg	1688–97	France/nondemocratic
6. War of the Spanish Succession	1701–13	France/nondemocratic
7. War of the Quadruple Alliance	1718–20	Britain/nondemocratic
8. War of the Polish Succession	1733–38	France/nondemocratic
9. War of the Austrian Succession	1739–48	Prussia/nondemocratic
10. Seven Years' War	1755–63	Prussia/nondemocratic
11. War of the American Revolution	1778–84	France/nondemocratic
12. French Revolutionary Wars	1792–1802	France/nondemocratic[c]
13. Napoleonic Wars	1803–15	France/nondemocratic
14. Austro-Prussian War	1866	Prussia/nondemocratic
15. Franco-Prussian War	1870–71	Prussia/nondemocratic
16. World War I	1914–18	Germany/nondemocratic[d]
17. Battle of France	1940	Germany/nondemocratic[e]
18. Battle of Britain	1940–41	Germany/nondemocratic[e]
19. German-USSR War	1941–45	Germany/nondemocratic[e]
20. The Pacific War	1941–45	Japan/nondemocratic

SOURCES: Identification of Great Power wars: Jack S. Levy, *War in the Modern Great Power System, 1495–1975* (Lexington: University Press of Kentucky, 1983), 71–73. Identification of preventive wars: Alfred Vagts, *Defense and Diplomacy* (New York: King's Crown Press, 1956), 263–350, unless otherwise noted.

[a] Wars were coded "preventive" if the decision to wage war for either offensive or defensive reasons was based on elites' perception, real or imagined, of an unfavorable power shift.

[b] Regime types of states were coded according to the above-mentioned criteria: democratic states have (1) elections with opposition parties, in which (2) at least 30% of the adult population is able to vote for (3) a parliament that either controls or enjoys parity with the executive branch. The government is (4) stable (in existence for at least three years) and (5) internally sovereign over military and foreign affairs. Citizens possess (6) economic freedom and (7) juridical rights. These criteria yield the same list provided in Doyle (fn. 14), 209–12, except for the French case below.

[c] Though Doyle codes the French Republic (1790–95) a liberal regime, France was not a democracy on April 20, 1792, when it declared a preventive war against Austria. Lefebvre argues instead that the second revolution of August 10, 1792, "usher[ed] in universal suffrage and, in effect, a republic," with the suspension of King Louis XVI, the destruction of the authority of the Legislative Assembly, and the introduction of the Convention. But the creation of the Convention did not produce political democracy either, as "the masses . . . had not voted" and "by law and by fact [the Convention] was invested with dictatorial powers." Rather, the August 10 revolution unleashed the Terror, which lasted until 1795. Macaulay aptly describes France as having gone from Bourbon absolutism to *revolutionary anarchy*, only to be followed by Napoleonic despotism. In short, the French government of April 1792 was neither stable (that is, having been in existence at least three years) nor representative—requirements listed above for a democracy. Georges Lefebvre, *The French Revolution: From Its Origins to 1793* (New York: Columbia University Press, 1962), 241, 265; Thomas B. Macaulay, *Napoleon and the Restoration of the Bourbons*, ed. Joseph Hamburger (New York: Columbia University Press, 1977), 12–14, 46–48.

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[d] For the most forceful argument that Germany went to war in 1914 to exploit a window of opportunity, see Fritz Fischer, *War of Illusions: German Policies from 1911 to 1914* (New York: W. W. Norton, 1975). Others have argued that German elites wanted a preventive war for defensive reasons: to strike before Russia completed its "Great Program" and the modernization of its railroad system.

[e] For the coding of Hitler's wars against France, Britain, and the Soviet Union as preventive, see Norman Rich, *Hitler's War Aims: Ideology, the Nazi State, and the Course of Expansion* (New York: W. W. Norton, 1973), esp. chaps. 9, 14, 15, 18. Hitler's wars were preventive in that he believed that war was (1) inevitable and (2) better sooner rather than later for Germany (i.e., the balance of power was shifting against Germany because of the progress of the French, British, and Soviet rearmament programs, especially production of British planes and air defense and Soviet tanks).

Hitler's ambitions. France, of course, muffed the opportunity and would pay heavily for it in 1940.[61]

Why did France not wage a preventive war in response to this specific crisis or to other, earlier German violations? Certainly it was not because French policymakers underestimated the value of the Rhine or the danger posed by Germany. French foreign policy after the Great War had fixated on the inevitability of a future attack by its vanquished opponent. At Versailles, French elites attempted to forestall a power shift that would reestablish Germany as the dominant power on the Continent, citing Germany's economic and military *potentiel de guerre* as justification for French claims for relatively greater armaments and for military control of German territory. As for the Rhine, the French military resolutely argued at the Paris Peace Conference that it constituted the only natural barrier to another German invasion. "If we hold the Rhine solidly, France can set its mind at ease," Marshal Foch declared. "If [France] doesn't hold the Rhine, . . . anything offered or given in exchange is mere illusion, appearance, and vanity."[62]

But even before the adjournment of the Versailles conference, France found itself deserted by its former allies: the U.S. turned its back on the Old World, refusing to ratify the treaty or to join the League; the Soviet Union, treated as an outcast by the West, drew closer to Germany; Italy and Japan left the conference so dissatisfied they could not be expected to protect the New Order. And though there remained a superficial semblance of allied solidarity with Britain throughout the interwar period, Anglo-French disagreement centered on the crux of the matter for France: the need to enforce the peace settlement upon Germany.

Most historians see London as playing a winning hand in its dispute

[61] See, e.g., Churchill's comments in Winston S. Churchill, *The Second World War*, vol. 1, *The Gathering Storm* (Boston: Houghton Mifflin, 1948), 194.

[62] Marshal Foch, as quoted in Schuker (fn. 60), 302. For the strategic significance of the Rhineland, see Jere Clemens King, *Foch versus Clemenceau: France and German Dismemberment, 1918–1919* (Cambridge: Harvard University Press, 1960).

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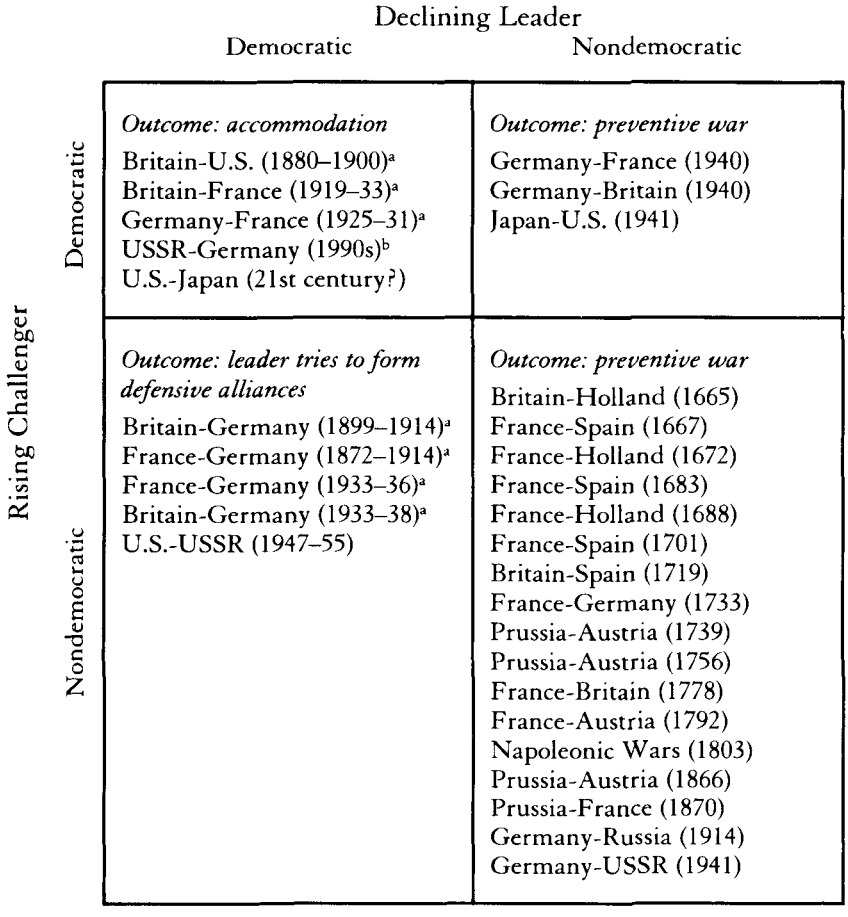

FIGURE 2

[a] In each of these cases, the data sets that follow indicate a dramatic power transition, in which, at the beginning of the time period, the state listed second possessed *far fewer* capabilities than did the state listed first; by the end of the time period, the challenger had surpassed the leading state in terms of power capabilities. The sources for these cases are William B. Moul, "Power Capability Percentage Shares: European Great Powers, 1816–1938," in Moul, "Measuring the 'Balance of Power': A Look at Some Numbers," *Review of International Studies* 15 (April 1989), 119–21; Correlates of War Project, University of Michigan, "The Capability Data Set Printout," December 1987. See also "Percentage Distribution of the cow Index among the Major Powers," in Jacek Kugler and Marina Arbetman, "Choosing among Measures of Power: A Review of the Empirical Record," in Richard J. Stoll and Michael D. Ward, eds., *Power in World Politics* (Boulder, Colo.: Lynne Rienner, 1989), 75.

[b] Accommodation depends upon the USSR continuing along the path of economic and political liberalization (see Conclusions to this essay).

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with Paris, since France—possessing half the industry and less than two-thirds the population of Germany—could only defeat its stronger neighbor with the help of powerful allies. Consequently, they argue, Paris could not afford to arouse British ire by unilaterally punishing German transgressions. Dependent on its "English governess," the French government had little choice but to be carried along a course of appeasement of Germany.[63]

In fact, however, France was not dependent on Britain. By any measure, up until 1936 France was far stronger militarily than Germany, but domestic constraints rendered it incapable of waging preventive war. German dominance was therefore inevitable and a British alliance indispensable. Able but unwilling to prevent the rise in German power, Paris could not afford to enact foreign policy without British consent, for in the long run a firm Anglo-French coalition would be necessary to deter or defeat a revitalized Germany.

The French Right had learned this lesson in 1923, when Poincaré used a German reparations default to justify military occupation of the Ruhr. The French military action infuriated Downing Street and the British and French electorates—clearly demonstrating the extent to which liberal moral values and internationalism had triumphed over realpolitik and unilateral national solutions. The French public, outraged by the offensive nature of the Ruhr policy, repudiated Poincaré and his right-wing party. This led, in turn, to the dominance of the Liberal factions in France and Britain and to the development of strong ties between them. France never again contemplated unilateral offensive action against Germany. The Treaty of Locarno (1925), by which Britain and Italy guaranteed the demilitarization of the Rhineland, served as much to prevent any repetition of the Ruhr adventure as it did to protect France against a future German attack.

Thereafter, French politicians, even hard-liners, rejected preventive war. In a speech delivered in November 1933 denouncing Germany's secret armaments and advocating a policy of firmness toward Germany, Georges Mandel dismissed any suggestion of a preventive war to counter German power. Similarly, Henry Lemery declared: "Preventive war, no one thinks of it and the very word fills us with horror."[64]

Furthermore, the majority of French public opinion supported a pol-

[63] For the classic statement on the danger of interwar appeasement, see Edward Hallet Carr, *The Twenty Years' Crisis, 1919–1939* (New York: Harper and Row, 1964). See also Wolfgang J. Mommsen and Lothar Kettenacker, eds., *The Fascist Challenge and the Policy of Appeasement* (London: George Allen and Unwin, 1983).

[64] Lemery, quoted in Maurice Vaisse, "Against Appeasement: French Advocates of Firmness, 1933–38," in Mommsen and Kettenacker (fn. 63), 231.

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icy of appeasement and surely would not have consented to a preventive war. Indeed, idealism and the complaisance of the public ensured a defensive strategy. In the 1920s the French projected a shortage in manpower between 1934 and 1939 (when the drop in the birthrate during the First World War was expected to reduce the annual class of conscripts by half). Yet pacifism among the French electorate forced parliamentary leaders in 1923 to reduce military service to eighteen months and in 1928 to one year. As a result of the public's myopic response to the manpower problems, the construction of the Maginot Line and the adoption of a strictly defensive posture became a military necessity.[65] The financial stringency of a succession of war ministers between 1932 and 1934 further complicated matters; General Weygand was asked to prepare for the decrease in the number of recruits "without increasing either the term of service or armament procurement."[66]

In 1932 a pacifist French public elected a leftist coalition under Edouard Herriot, who reduced the military estimates for 1933 and accepted the principle of arms equality with Germany at the Geneva Disarmament Conference.[67] Similarly, in May 1936, two months *after* the Rhineland crisis, the electorate voted in the Popular Front, which ran on a "defense of peace" slogan, meaning support for the League of Nations, disarmament, and the principles of collective security.[68]

Against this backdrop, a full formal cabinet meeting took place on March 8, 1936, at the Elysée. Until then it had appeared that France might respond with force to push back the German advance. But the meeting confirmed that France had no such offensive plans. Instead, an official follow-up communiqué announced that the ministers had decided France would simply refer the issue to the League and consult with the other Locarno signatories.

As if to confirm that France would act only in conjunction with its allies, the minister for war later issued a statement that troop movements would be limited to soldiers needed to man the eastern fortifications. And after representatives of the Locarno powers met in Paris on March 10, the French government declared, "We will put all our forces, material and moral, at the disposal of the League of Nations . . . on the one

[65] Donald Cameron Watt, *Too Serious a Business: European Armed Forces and the Approach to the Second World War* (Berkeley and Los Angeles: University of California Press, 1975), 37.

[66] Schuker (fn. 60), 318.

[67] For a detailed account of French disarmament and the drift toward arms equality in 1933, see Robert J. Young, *In Command of France: French Foreign Policy and Military Planning, 1933–1940* (Cambridge: Harvard University Press, 1978), chap. 2.

[68] David Thomson, *Democracy in France: The Third and Fourth Republics*, 2d ed. (London: Oxford University Press, 1952), 198.

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condition that we shall be accompanied in the fight for peace by those who clearly bound themselves to do so by the Rhineland pact."[69]

Yet French insistence on allied action was nothing more than an attempt to blame its allies for its own reluctance to push a forward policy. At no time did Paris expect offers of concrete assistance from any of the Locarno powers. Belgium had essentially allowed its military accord with France to lapse in 1931, so French elites surely realized that Belgian support would not be forthcoming. Similarly, Italian assistance had been lost as a result of the Anglo-French response to the Abyssinian crisis. Mussolini had plainly stated that Italy would not honor its Locarno pledge so long as it faced economic sanctions.

As for British support, notwithstanding Stanley Baldwin's histrionic remark in 1934 that Britain's frontier now lay on the Rhine, Lieutenant General Pownall's comments on March 30, 1936, accurately captured British opinion on the matter:

> It's high time the French were "told where they got off." They would make a pact or an alliance or something like that on *our* terms if we had the guts to put it to them squarely. It's time we ceased being tied to their apron-strings, and a rare lot of people in this country think so.[70]

With analogous disdain, the League of Nations representative in London, H. R. Cummings, told his secretary-general, Joseph Avenol, "The central point of British opinion is that experience doesn't encourage the use of nonmilitary sanctions against Germany, and Germany's breach is not sufficiently grave to justify the tremendous responsibility of a preventive war."[71]

Even without allied support, France had the strength to act unilaterally to resist the German advance. But pacifist public opinion at home effectively bridled French ministers from entertaining any serious ideas of military counteraction. Anthony Eden states in his memoirs:

> What I now believe to be true is that the French and Belgian governments did not at the time have sufficient support in their public opinions to allow them to use effective force and that, being democracies, they could not have acted without it, even if they had wished to do so.[72]

[69] French declaration, March 10, 1936, as quoted in Parker (fn. 60), 358.

[70] Brian Bond, ed., *Chief of Staff: The Diaries of Lieutenant-General Sir Henry Pownall, 1933–1940* (London: Archon Books, 1973), 108.

[71] Cummings (head of the League Information Section) to Avenol, March 9, 1936, quoted in Schuker (fn. 60), 336.

[72] Eden, *Facing the Dictators* (Boston: Houghton Mifflin, 1962), 397. Eden also wrote:

> Academically speaking, there is little dispute that Hitler should have been called to order, if need be forcibly, at his first breach of an accepted international engagement. But nobody was prepared to do it, in this country literally nobody. Even the most warlike proclaimed that the League Council must be called, which would not have endorsed the use of force. (p. 412)

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When Gamelin and Maurin told the Council of Ministers that a military riposte in response to Germany's reoccupation of the Rhineland carried a risk of war, for which full mobilization would be required, Chautemps replied, "But no one here wants to make war," to which there was no dissent. Paul-Boncour added that to request general mobilization was needlessly to terrorize the Council of Ministers and public opinion.[73]

The machinery and institutions of democracy in France also prevented an effective response to the specific German move and, more generally, to the growth in German power. Thomson argues that the inertia of interwar French policy resulted from the representativeness of French democracy during the divisive last years of the Third Republic:

> If the function of democratic government is to be a mirror or a photographic negative—reflecting or reproducing accurately the conflicts of social and political forces—the Republic worked well enough. If the function of democratic government is something more positive than this; if it be to serve the good life and the general well-being of most citizens, to act as a "hinderer of hindrances" to national prosperity and security, it worked less well.[74]

The intense political instability of the Third Republic (twenty-four changes of ministry in the period 1930–40) meant that France was almost wholly distracted by internal troubles while Germany rearmed.[75] Characteristically, when German troops reoccupied the Rhineland, the French government was being run by the caretaker administration of Albert Sarraut. Having taken office in January 1936, he was content simply to keep things in order until the May elections.[76]

Hence, faced by a threatening rise in German power, France responded, Thomson remarks, with

> her old *débrouillage*—her bad habit of hand-to-mouth half-measures which introduced so much ineffectiveness and frustration into her national response to the "modern challenge." Half a Marinot Line was not necessarily better than no Line: nor "non-intervention" and "appeasement" an adequate substitute for aeroplanes and tanks.[77]

[73] Parker (fn. 60), 364.

[74] Thomson (fn. 68), 171.

[75] In addition, the Third Republic's history of political scandals, most notably the Stavisky affair of 1934, had entirely discredited the parliamentary system. One French officer exclaimed, "Literally I have never met a single one of my *poilus* who has not expressed his disgust for the parliamentary regime"; comments of a French officer, June 1940, quoted in Anthony Adamthwaite, *France and the Coming of the Second World War, 1936–1939* (London: Frank Cass, 1977), 12.

[76] Laval had resigned in response to the public's denouncement of the Hoare-Laval proposals, which sought to appease Italy through territorial concessions at the expense of Ethiopia.

[77] Thomson (fn. 68), 200.

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Moreover, with each increase in German and Italian military power there seemed to be a corresponding weakening of the French defensive alliance system, as France's allies defected and Paris failed to honor its alliance commitments.

THE UNITED STATES AND THE SOVIET CHALLENGE, 1947–55

During the first four years of the cold war, the United States enjoyed an absolute monopoly of nuclear weapons; and the Soviets—even after exploding an atomic weapon in 1949—lacked until 1955 a sufficient delivery capability to launch a preventive strike against the U.S. nuclear arsenal. Despite the knowledge that its nuclear monopoly was a wasting asset, however, the U.S. did not launch a preventive nuclear war when it could have done so with impunity against the rising Soviet challenger.

Some might argue that the unique character of nuclear weapons explains U.S. restraint. Hiroshima and Nagasaki had made such an awesome impact on world opinion, so the argument goes, that the profound moral and political implications of nuclear weapons were enough to self-deter subsequent U.S. presidents. Indeed, on several occasions Truman clearly distinguished nuclear weapons from all other military weapons. As he stated in 1948, "I don't think we ought to use this thing unless we absolutely have to. . . . [T]his isn't a military weapon"; and in 1949, "When [people] think this is just another bomb, they are making a very serious mistake." Significantly, Truman added, "But I know the Russians would use it on us if they had it."[78]

On closer inspection, however, the proposition about the uniqueness of nuclear weapons does not hold up, even for the Truman administration. Instead, the U.S. deemed unacceptable any strategy of preventive war, whether conventional or nuclear. NSC-68 of April 1950, for instance, retained the option of a preemptive nuclear strike in response to an imminent Soviet attack but explicitly ruled out preventive war:

> It goes without saying that the idea of "preventive war"—in the sense of a military attack not provoked by a military attack on us or our allies—is generally unacceptable to Americans. . . . [A] surprise attack upon the Soviet Union, despite the provocativeness of recent Soviet behavior, would be repugnant to many Americans. Although the American people would probably rally in support of the war effort, the shock of responsibility for a surprise attack would be morally corrosive. Many would doubt that it

[78] Harry Truman, quoted in John Lewis Gaddis, "The Origins of Self-Deterrence: The United States and the Non-Use of Nuclear Weapons, 1945–1958," in Gaddis, *The Long Peace: Inquiries into the History of the Cold War* (New York and Oxford: Oxford University Press, 1987), 106–7.

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was a "just war" and that all reasonable possibilities for a peaceful settlement had been explored in good faith.[79]

Moreover, Truman declared in 1948 that the U.S. would never *initiate* a nuclear attack but would also not hesitate to use nuclear weapons in *response* to a Soviet conventional or nuclear attack.[80]

And while Truman considered atomic weapons a last resort, Eisenhower viewed the nuclear option as an integral part of the U.S. military arsenal and, one could argue, as a first resort. Eisenhower's national security policy, as elaborated in NSC-162/2, established the policy that nuclear weapons would be "as available for use as other munitions" to be employed in limited and general war.[81] In addition, the New Look and the doctrine of massive retaliation relied on the credibility of a policy of "first use" and the strength of American air power, giving highest priority to the strategic power of SAC. Like Truman, however, Eisenhower ruled out preventive war on both moral and political grounds.

Anxiety over the Soviet test of a thermonuclear bomb in August 1953[82] led to the only serious discussion of preventive war by high-level Eisenhower foreign policy advisers, the Advance Study Group of the Joint Chiefs of Staff, and the air force and air staff.[83] Eisenhower himself pondered the value of preventive war as an alternative to a costly and continuous arms race with the Soviet Union that "would either drive us to war—or into some form of dictatorial government. In such circumstances, we would be forced to consider whether or not our duty to future generations did not require us to initiate war at the most propitious moment we could designate."[84]

[79] NSC-68, April 14, 1950, reprinted in Thomas H. Etzold and John Lewis Gaddis, eds., *Containment: Documents on American Policy and Strategy, 1945–1950* (New York: Columbia University Press, 1978), 431–32.

[80] Lebow (fn. 4, 1984), 172. Addressing the American public, Truman said, "We do not believe in aggression or preventive war. Such a war is the weapon of dictators, not of free democratic countries like the United States." Quoted in Russell D. Buhite and William Christopher Hamel, "War for Peace: The Question of an American Preventive War against the Soviet Union, 1945–1955," *Diplomatic History* 14 (Summer 1990), 382. Truman's disdain for preventive war was evidenced by his dismissal in 1950 of Major General Orvil Anderson as commandant of the Air War College following Anderson's public remarks in favor of preventive war. See Brodie (fn. 26), 229.

[81] NSC-162/2, October 30, 1953, quoted in David Alan Rosenberg, "U.S. Nuclear War Planning, 1945–1960," in Desmond Ball and Jeffrey Richelson, eds., *Strategic Nuclear Targeting* (Ithaca, N.Y.: Cornell University Press, 1986), 44.

[82] The Soviet test in 1953 was not of a superbomb, as Soviet historians have claimed, but rather was of a type of thermonuclear weapon. It was not until November 1955 that the Soviets successfully tested a superbomb with a yield of 1.6 megatons. See David Holloway, *The Soviet Union and the Arms Race* (New Haven: Yale University Press, 1983), 24.

[83] Rosenberg (fn. 81), 44.

[84] Memorandum, Dwight Eisenhower to John Foster Dulles, September 8, 1953, DDE Diary, August–September 1953, folder 2, box 3, ACWF-EPP, Dwight D. Eisenhower Library; cited in Rosenberg (fn. 81), 44; and Lebow (fn. 4, 1984), 173.

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The option of preventive war was quickly dropped, however, when two of Eisenhower's most trusted advisers, Bedell Smith, under secretary of state, and Robert Cutler, special assistant to the president for national security affairs, rejected the proposal.[85] In May 1954 Eisenhower dismissed a recommendation from the Advance Study Group of the JCS that the U.S. give careful thought to "deliberately precipitating war with the USSR in the near future" before the Soviet's thermonuclear capability presented a "real menace" to American security.[86] Consequently, in the fall of 1954 the Basic National Security Policy paper firmly stated that "the United States and its allies must reject the concept of preventive war or acts intended to provoke war."[87]

In addition to the effects of liberal moral values and domestic and world public opinion, American political and military exhaustion after the Second World War worked against a preventive war. Dean Acheson, referring to Korea, urged NATO members at the Lisbon meeting to resist complaisance, noting that a "vacuum of weakness" provides a "fatal temptation to autocracies determined to expand." Significantly, Acheson continued: "For this reason, we seek to build forces adequate to deter aggression or to meet it. We do not seek to create greater strength than we need for this purpose, we do not desire military forces great enough to launch a preventive war."[88]

Nevertheless, the public's dissatisfaction with the drawn-out Korean War—what might be called a limited preventive war by proxy, as was Vietnam—testified to the complaisance and exhaustion of the majority of American citizens, which made any thought of a general preventive war against the Soviet Union purely academic. Indeed, Eisenhower's New Look placed more reliance on deterrent power and less dependence on local defensive power, thereby reflecting the public's desire to maintain a strong military posture with defense economy and—most important of all—without the use of American ground forces. Eisenhower explained that the idea had been "to develop within the various areas and regions of the free world indigenous forces for the maintenance of order,

[85] Glenn Snyder, "The New Look of 1953," in Warner R. Schilling et al., *Strategy, Politics, and Defense Budgets* (New York: Columbia University Press, 1962), 409.

[86] NSC 5440/1, December 28, 1954, cited in Lebow (fn. 4, 1984), 173. See also Matthew B. Ridgway, Memo for the Special Assistant to the President for National Security Affairs: Subject: Review of Basic National Security Policy, November 22, 1954, Historical Record Folder, box 30, Ridgway Papers; cited in David Alan Rosenberg, "The Origins of Overkill: Nuclear Weapons and American Strategy, 1945–1960," *International Security* 7 (Spring 1983), 34.

[87] Rosenberg (fn. 86), 34.

[88] Acheson, Lisbon meeting of the North Atlantic Council; *New York Times*, February 21, 1952, quoted in Vagts (fn. 4), 335.

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the safeguarding of frontiers, and the provision of the bulk of ground capability." Asked whether the policy was to have other countries bear the brunt of future fighting, Eisenhower responded that "that was the kernel of the whole thing."[89]

Consistent with the proposed hypothesis about declining democratic leaders confronted by rising authoritarian challengers, both the Truman and Eisenhower administrations, having ruled out preventive war, attempted to contain Soviet power through an extensive worldwide defensive alliance system. By the time Truman left office, the U.S. had signed formal alliances with forty-one countries through the Rio Treaty, the North Atlantic Treaty, the ANZUS Treaty, and the Philippine and Japanese security treaties. Eisenhower, whose secretary of state was often accused of "pactomania," gave additional security commitments to Thailand and Pakistan through the SEATO Treaty, and to Korea and Taiwan in bilateral treaties. The U.S. also pledged assistance in the defense of Turkey, Pakistan, and Iran in separate bilateral executive agreements.[90]

The U.S. emphasis on defensive alliances after 1945 may be seen as strong confirmation of the theory, for it is one of the great ironies of history that America finally accepted entangling alliances and the logic of balance of power politics at a time when Soviet transcontinental striking power drastically diminished their importance for U.S. security.[91]

The Deviant Case

ISRAEL AND THE ARAB THREAT, 1947–PRESENT

Until recently, Israel had not launched a preventive war. The Suez campaign of 1956 came in the wake of a terrorist campaign by the fedayeen, accompanied by a blockade of Israeli shipping in the Gulf of Aqaba and the Suez Canal.[92] The Israeli surprise attack that opened the Six-Day War on June 5, 1967, was a preemptive move in response to the forma-

[89] Eisenhower, March 29, 1957, quoted in Gaddis (fn. 39), 153. Dulles remarked similarly in his famous speech on massive retaliation that the attempt to meet aggression "by being ready to fight everywhere . . . could not be continued for long without grave budgetary, economic, and social consequences." John Foster Dulles, U.S. secretary of state, address before the Council on Foreign Relations, January 12, 1954, quoted in Robert E. Osgood, *Limited War: The Challenge to American Strategy* (Chicago: University of Chicago Press, 1957), 209.

[90] Gaddis (fn. 39), 152.

[91] For a discussion of this irony and the incoherence of American defense policy, see Warner Schilling, "The H-Bomb Decision: How to Decide without Actually Choosing," *Political Science Quarterly* 76 (March 1961), 25–27.

[92] Michael Brecher, *Decisions in Israel's Foreign Policy* (New Haven: Yale University Press, 1975), 225–317.

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tion on June 3 of an Arab coalition headed by Egypt; and the October War began with a combined attack by Syria and Egypt against Israel.

On June 7, 1981, however, Israel executed a preventive strike against Iraq, destroying the Osiraq nuclear reactor.[93] One year later Prime Minister Begin justified Israel's invasion of Lebanon in preventive terms: to eliminate the long-term threat posed by the military and political presence of the PLO in Lebanon. Both of these preventive actions, however, carried little (if any) military risks. Indeed, given the lopsided military balance of the Lebanon War, Israel could not escape being portrayed as "Goliath" swatting down the far weaker military forces of the "David-like" PLO.[94]

Nevertheless, these two preventive actions make Israel the most likely candidate to become the first democracy to initiate a preventive war against a serious military threat. Indeed, some would argue that Israeli military doctrine, which is based on preemption and reprisal, offers strong support for the realist proposition that the anarchic structure of the international system overrides variations in domestic structure.

This assertion, however, obscures the fact that Israel faces extreme systemic constraints: it is a small state, geographically isolated from other democracies, that is continuously fighting to survive. Michael Handel comments: "The basic assumption underlying Israeli political-military doctrine is the understanding that the central aim of Arab countries is to destroy the state of Israel whenever they feel able to do so, while doing everything to harass and disturb peaceful life."[95]

Israel is the only state in history to be surrounded by hostile countries that do not recognize its legitimacy as a sovereign state and that possess far greater demographic and material resources. Moreover, Israel does not belong to any formal military alliance, since such an agreement would automatically alienate Arab countries from any state that signed it. This situation has prevented Israel from forming a regional defensive alliance system, the hypothesized response of a declining democratic leader to counterbalance a rising authoritarian challenger(s). Consequently, Israeli policymakers fully recognize that Israel must "rely com-

[93] For a brief discussion, see Ilan Peleg, *Begin's Foreign Policy, 1977–1983* (New York: Greenwood Press, 1987), 185–90.

[94] For the preventive aspects of the Lebanon War, see Yehoshafat Harkabi, *The Bar Kokhba Syndrome: Risk and Realism in International Politics* (Chappaqua, N.Y.: Rossel Books, 1983), 183ff.; Peleg (fn. 93), chap. 5.

[95] Michael I. Handel, *Israel's Political-Military Doctrine* (Cambridge: Center for International Affairs, Harvard University, 1973), 64.

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pletely on its own power in case of emergency."[96] Moreover, encircled by four hostile Arab states and threatened by naval blockade during war, "Israel's geographic position until 1967 was," in the words of Michael Brecher, "a strategist's nightmare."[97] From a military perspective, Israel is a state under siege.

Given this overwhelming pressure exerted by the international system, the strategic military doctrine of the Israel Defense Forces (IDF) stresses speed, maintaining the initiative, and the iron law of fighting on—or quickly transferring the fighting to—the opponent's territory. To meet these requirements, the IDF will not hesitate to launch a preemptive attack if the security of the state is endangered; it is an offensive doctrine motivated by self-defense.

In adopting an offensive military doctrine with preventive aspects, Israel has succeeded where other democracies have failed. One reason is that Israelis, living under constant threat, well understand the self-help nature of the international system; that is, they do not liken its functioning to domestic society—a common mistake made by citizens of other democracies. As a result, Israelis accept the militarization of their society and the attendant limitations on their freedoms that the hostile state system requires: universal and compulsory military service and military expenditures that approach 50 percent of the national budget.[98] The public's willingness to sacrifice for the defense of the state is reflected in the narrow margins of debate among the political parties over security matters. Handel remarks:

> This is only natural for a nation under a constant state of siege and in which all citizens serve in the army and have a first-hand knowledge of military affairs and matters of security. This point must be especially appreciated when one considers the otherwise highly fragmented and divided Israeli political system. . . . Generally, matters of security are above party politics and in this regard could be considered suprapolitical.[99]

In part, this consensus is explained by the huge impact that the historical experiences of the Jewish people has had on the state of mind of Israeli leaders and citizens, especially the older generation. The historical

[96] Ibid.; Samuel J. Roberts, *Survival or Hegemony?: The Foundations of Israeli Foreign Policy* (Baltimore: John Hopkins University Press, 1973), 112ff.

[97] Michael Brecher, *The Foreign Policy System of Israel* (New Haven: Yale University Press, 1972), 65.

[98] In the years 1966–75 Israel's military expenditure averaged 49.8% of the national budget. See Milton Leitenberg and Nicole Ball, "The Military Expenditures of Less Developed Nations as a Proportion of Their State Budgets," in Asbjorn Eide and Marek Thee, eds., *Problems of Contemporary Militarism* (New York: St. Martin's Press, 1980), 289.

[99] Handel (fn. 95), 9.

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memory of the Jewish people—the recent Holocaust, the many wars for survival with the Arab states since 1947, and the similar hostility encountered by the Jewish states of antiquity, Judah and Ephraim, culminating in the destruction of the Temple in A.D. 70 by Titus—finds expression in a siege mentality that is both reflected and crystallized in the atavistic institutions and ideas of contemporary Israel.[100] And given the inherent "stickiness" of mindsets and institutions, change in Israeli military doctrine will be a slow, evolutionary process that will not develop in tandem with improvements in the external environment.

In short, continuous, intense systemic pressure and the tragic historical experiences of the Jewish people have shaped Israel's domestic structures in ways characteristic of authoritarian regimes, which explains why Israel has retained a preventive-war option unavailable to other democratic states.[101] In particular, Israeli leaders have not had their foreign policy options constrained by those elements that have ruled out preventive war for other democracies—liberal moral values, party politics, pacifist public opinion, and liberal complaisance.

Conclusions

The model delineated in this article integrates four outcomes associated with an impending decline in relative power: accommodation, internal balancing, alliance formation, and preventive war. Although all of these policies are consistent with and widely discussed in the structural-realist literature, systemic factors alone cannot predict which response will be taken by a declining leader. To account for this variance, it is necessary to abandon the structural-realist assumption that all states react similarly to external pressures (the billiard-ball model of state behavior). Instead, an auxiliary second-image hypothesis that specifies the type of regime (democratic or nondemocratic) and the type of leader and challenger provides more determinate predictions of the outcomes of power shifts.

Specifically, it has been shown that (1) *accommodation* results when both leader and challenger are democratic states; (2) *preventive war* as a

[100] It is worth noting that the Israelites under David's leadership waged two preventive wars, first against the Philistines and then against Damascus. For a good discussion on the similarities between the ancient Jewish states and contemporary Israel and on how the history of the ancient Israelites affects Israeli foreign policy decision making, see Roberts (fn. 96), chap. 1.

[101] For an excellent discussion of the effects of the international system on domestic structure, see Peter Gourevitch, "The Second Image Reversed," *International Organization* 32 (Autumn 1978).

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solution is exclusive to declining nondemocratic states; (3) *defensive alliances* are sought by declining democratic leaders confronting rising nondemocratic challengers; and (4) *internal balancing* is problematic for democratic states unless they possess an option, such as nuclear weapons, that is relatively inexpensive in terms of human and material resources.

Preliminary empirical findings seem to support the reliability of the predictions of the model. Democratic states have not gone to war against one another, though they have experienced power shifts. Conversely, declining authoritarian regimes have often exercised the preventive option, regardless of the regime type of the rising challenger.

The case studies also support the propositions of the model. Democratic forces prohibited policymakers in interwar France and after 1945 in the U.S. from entertaining strategies of preventive war. Instead, both states attempted to create extensive systems of defensive alliances to counterbalance the rise of an authoritarian adversary. The deviant Israeli case shows that when characteristics associated with authoritarian regimes are present in an otherwise democratic state, elites are able to respond to power shifts in the manner of nondemocratic states: with preventive action.

The significance of these tentative findings has been heightened by the current ascendance of liberal democratic values throughout the world and the rise of a multipolar system in Europe as a result of the end of the cold war.[102] Although major power shifts are currently under way and will continue to unfold, the proposed model predicts peaceful change: the instability often associated with uneven rates of growth is neutralized by the increase in the number of democratic states.[103]

Of particular importance, the model predicts that as long as the Soviet Union continues along the path of democratization and economic liberalization, it will not wage a preventive war against a reunified Germany, even if Bonn eventually decides to develop a strong independent nuclear force. Democratic forces have already played a major role in the Soviet Union's peaceful retrenchment from Central and Eastern Europe, conceding the reestablishment of German dominance over Europe. Mirac-

[102] For discussions that forecast the return of multipolarity in Europe, see John J. Mearsheimer, "Back to the Future: Instability in Europe after the Cold War," *International Security* 15 (Summer 1990); Jack Snyder, "Averting Anarchy in the New Europe," *International Security* 14 (Spring 1990); Thomas J. Christensen and Jack Snyder, "Chain Gangs and Passed Bucks: Predicting Alliance Patterns in Multipolarity," *International Organization* 44 (Spring 1990).

[103] For similar arguments, see Stephen Van Evera, "Primed for Peace: Europe after the Cold War," *International Security* 15 (Winter 1990–91); and the exchange between Bruce M. Russett and John J. Mearsheimer in "Back to the Future, Part III: Realism and the Realities of European Security," *International Security* 15 (Winter 1990–91).

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ulously, we are witnessing a major power shift involving Germany and the Soviet Union without, as yet, any serious threat of war. In addition, Germany's democratic allies to the west and smaller neighbors to the east, with the possible exception of Poland, have not expressed great alarm over the anticipated rise in German power and influence. On a sobering note, however, the model suggests that uninterrupted peaceful change depends on the continued health of still-fragile democratization processes in the Soviet Union and elsewhere.

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Review Article

EAST ASIA'S ECONOMIC SUCCESS
Conflicting Perspectives, Partial Insights, Shaky Evidence

By ROBERT WADE*

Alice Amsden. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press, 1989, 379 pp.

Stephan Haggard. *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Ithaca, N.Y.: Cornell University Press, 1990, 276 pp.

Helen Hughes, ed. *Achieving Industrialization in East Asia*. Cambridge: Cambridge University Press, 1988, 377 pp.

> Don't listen to "comparative advantage" advice. Whenever we wanted to do anything the advocates of comparative advantage said, "We don't have comparative advantage." In fact, we did everything we wanted, but whatever we did, we did well.
>
> —*Governor Park*
> Korea Central Bank[1]

> I do not believe that the firms could have organized a supercomputer project themselves because businesspeople did not believe in the feasibility and profitability of this kind of supercomputer in the near future. Our pressure or promotion was needed.
>
> —*Senior* MITI *official*[2]

The Neoliberal Interpretation of East Asian Success

OVER the past two decades a literature big enough to fill a small airplane hangar has been produced on the causes of East Asian economic success. Of that which is economically literate the mainstream adopts what could be called a "neoliberal" interpretation. This says that

* The author acknowledges Adrian Wood, Ronald Dore, Manfred Bienefeld, Olivia Cox-Fill, Julie Gorte, and Michael Lipton. The usual exoneration applies with more than usual force.

[1] Quoted in Yoginder Alagh, "The NIEs and the Developing Asian and Pacific Region: A View from South Asia," *Asian Development Review* 7, no. 2 (1989), 116. I thank Devesh Kapur for this reference.

[2] Cited in Martin Fransman, *The Market and Beyond: Cooperation and Competition in Information Technology in the Japanese System* (Cambridge: Cambridge University Press, 1990), 176.

World Politics 44 (January 1992), 270–320

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the East Asian countries were more successful than others in terms of long-run growth because, in essence, they stuck more firmly to the prescriptions for short-run efficient resource allocation derived from the theorems of neoclassical economics.

Neoliberal here refers to a subset of neoclassical economics. Its members believe that as a general rule the neoclassical prescriptions for short-run optimal resource allocation are also the core recipe for maximizing the rate of long-term growth. Other neoclassicals, by contrast, draw more of a distinction between the two kinds of analyses, introducing a more complex array of variables into growth issues than they use for questions of optimum resource allocation. Neoliberals are inclined to think that "getting the prices right" is both a necessary and a nearly sufficient condition for maximizing the rate of long-term growth ("getting" in the sense of letting prices find their right levels, and "right" in the sense of the relative prices established in freely operating domestic and international markets); other neoclassicals would say that it is no more than necessary. Relatedly, neoliberals believe that most market failure is a result of government policies and that, even in those uncommon cases where market failure occurs for other reasons, the welfare costs of remedial government intervention can often be expected to be greater than the welfare gains. This weighting of probabilities is based on a relatively coherent theory of perverse government, as set out, for example, in the works of William Niskanen and David Colander.[3]

In the neoliberal view, growth is a natural or inherent property of capitalist economies. Governments have an important role in providing those "public goods," such as physical infrastructure, law enforcement, macroeconomic stability, and perhaps education, that are difficult to arrange through private contracts. But beyond that they should not go, except in those rare cases of market failure referred to above. The problem is that most governments have in fact gone well beyond these limits,

[3] Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971); and Colander, ed., *Neoclassical Political Economy: The Analysis of Rent-seeking and DUP Activities* (Cambridge: Ballinger, 1984). For an academic example of neoliberal development economics, see Deepak Lal, *The Poverty of Development Economics* (London: IEA Hobart Paperback no. 16, 1983). For a policy paper based on neoliberal assumptions, see, e.g., *Accelerated Development in Sub-saharan Africa: An Agenda for Action* (Washington, D.C.: World Bank, 1981), commonly known as the Berg report. For an example of tendentious use of evidence in the neoliberal cause, see Michael Michaely et al., *Liberalizing Foreign Trade: Lessons of Experience from Developing Countries*, vols. 1–7 (Oxford: Blackwells, for the World Bank, 1991), esp. summary volume. For a critique of neoliberalism, see Christopher Colclough, "Structuralism versus Neo-liberalism: An Introduction," in Colclough and James Manor, eds., *States or Markets? Neo-liberalism and the Development Policy Debate* (Oxford: Oxford University Press, 1991). For a critique of the study by Michaely et al., see David Evans, "Institutions, Sequencing, and Trade Policy Reform" (Geneva: UNCTAD, May 1991).

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adopting policies that interfere, intentionally or not, with the free working of markets. East Asian governments have stayed within these limits. Hence, East Asian economic success, which in turn resoundingly vindicates the general neoliberal prescriptions.

Those who outline this argument as a preliminary to a critique often find themselves accused of setting up a straw man; no respected economist is as simplistic as that, they are told. So it is important to establish that this *is* a fair short summary of the core neoliberal position, that it is what respected economists say. Enter Helen Hughes,[4] editor of *Achieving Industrialization in East Asia*, definitely nobody's idea of a straw man. What policies have been critical to economic success in East Asia? she asks. Her answer:

> The conclusion is that "unshackling exports" (that most of the East Asian countries had themselves at first shackled) has been *the key to success*. However, it is also clear that successful performance needs several [other] policy strands. Political stability and the rule of law are essential. Economic policies apparently distorted prices less than was the case in most other developing countries; macroeconomic management was relatively successful, all economic sectors, particularly agriculture,[5] were developed, and public investment in social and physical infrastructural facilities was productive. Where these economic conditions did not prevail, as in the Philippines, the economy faltered. Governments thus provided the environment for growth; but private enterprise, despite risk and uncertainty, made the investments necessary and through exposure to international competition became efficient and profitable. (pp. xv–xvi)

As for replication by poorer countries, "There seems little doubt that if other developing countries had followed similar economic policies they would also have grown more rapidly and would thus have been able to alleviate the poverty of their low income groups as well as avoiding high national indebtedness"[6] (p. xvi). This is cast in the past tense—"if other

[4] Professor of economics and director of the National Center for Development Studies at the Australian National University, formerly a high-ranking official at the World Bank.

[5] It is not clear what Hughes means at this point, but she presumably means that the government directed its attention to developing agriculture, among other sectors. But state policies toward agriculture in Korea and Taiwan differed greatly from standard market-based prescriptions. For an account of the highly dirigiste role of the state in developing Korean and Taiwanese agriculture, see Wade, "South Korea's Agricultural Development: The Myth of the Passive State," *Pacific Viewpoint* 24 (May 1983); idem, *Irrigation and Agricultural Politics in South Korea* (Boulder, Colo.: Westview Press, 1982); Mick Moore, "Economic Growth and the Rise of Civil Society: Agriculture in Taiwan and South Korea," in Gordon White, ed., *The Developmental State in East Asia* (London: Macmillan, 1988).

[6] In addition to the chapters mentioned in this paper, the book includes papers by Chenery (on alternative views on industrialization in East Asia), Parry (on the role of foreign capital), Wade (on the role of government), Harberger (on growth, industrialization, and economic structure in East Asia and Latin America), Lal (on ideology and industrialization in India and East Asia), Hirono (on Japan as a model), Haggard (on the politics of industrialization

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developing countries had followed"—but it is clearly intended to apply today.

According to Hughes, then, economic development really is simple. The experience of East Asia confirms Adam Smith's insight of two hundred years ago that "little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice; all the rest being brought about by the natural course of things."[7] Conversely, governments of the less successful developing countries stand condemned for holding back the escape from poverty and high national indebtedness, among other ills, by interfering with markets and undersupplying public goods.

James Riedel,[8] also nobody's idea of a straw man, concludes his overview essay in the Hughes volume on the same note: "The policy lessons that derive from the experiences of the East Asian countries are simple and clear-cut, and for that reason are all too readily ignored or dismissed" (p. 38). The lessons are, above all, that

> neo-classical economic principles are alive and well, and working particularly effectively in the East Asian countries. Once public goods are provided for[9] and the most obvious distortions corrected, markets seem to do the job of allocating resources reasonably well, and certainly better than centralized decision-making. That is evident in East Asia, and in most other parts of the developing and industrial world, and is after all the main tenet of neo-classical economics. (p. 38)

What evidence does Riedel provide? He readily admits that "governments have been *deeply involved* in the economies of all the East Asian countries," including Hong Kong.[10] They have been "actively engaged in managing the system of industrial incentives." For example, "The level of protection in the Republic of Korea, apart from that faced by exporters, has remained ***high***" (p. 32; emphasis added). One might have expected him to address the obvious next question. If the level of protection on domestic sales has remained high (not further specified), why has Korea's economic performance been so good, given that the most central of all neoclassical development prescriptions concerns the benefits of nearly free trade? He agrees that "the area of government involvement

in Korea and Taiwan), Mackie (on the politics of growth in ASEAN), O'Malley (on culture and industrialization).

[7] Smith, *An Enquiry into the Nature and Causes of the Wealth of Nations*, ed. E. Cannan (New York: Random House, 1937).

[8] Professor of international economics at The Johns Hopkins University.

[9] It is possible to define a public good to permit huge amounts of state activity.

[10] But Riedel also says (Hughes, 35) that the Hong Kong government "has confined itself largely to *minimal* functions," from which we could infer that he intends the term "deeply involved" to cover involvement limited to "minimal [Smithian] functions."

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most difficult to evaluate is the management of the system of incentives which guide private economic activity." Nevertheless, he leaves the reader with the strong presumption that "governments' main contribution to economic success in the East Asian countries was . . . principally in *removing the obstacles to growth which they themselves put there* in the first place," that East Asian governments made their task unnecessarily complicated by having to "anticipate and offset the market distortions that result from [their own] *dirigiste* strategies of industrialization" (p. 37; emphasis added). So while the fact of "government intervention" in East Asia is acknowledged, it is given scant analysis; the effects of intervention are asserted with virtually *no* basis in evidence. In particular, key challenges, such as the combination of Korea's admitted high protection with its admitted good performance, are ignored. The dirigiste strategies of industrialization are presented as mistakes that required further government intervention to offset them (such as export subsidies to offset import protection); the idea that those dirigiste strategies might have *helped* industrialization is not even entertained.

The chapter in Hughes by Seiji Naya[11] displays the same habits of thought. Naya, too, recognizes that "the incentive system applied in the NICs was, of course, not entirely free of bias. Some industries, particularly intermediate and engineering goods industries, enjoyed heavily protected domestic markets at the expense of traditional consumer goods industries" (p. 84). But he gives no evidence for the magnitude of the incentive bias and says not a word about its effects on output. He merely repeats the conventional conclusion that "the better performance of the NICs with respect to economic growth, employment and income distribution compared to the resource-rich ASEAN countries can, to a large extent, be related to a combination of more thorough and timely adoption of outward-looking, market-oriented policies and rapid improvements in human resource and institutional development" (p. 93). Neither he nor the other contributors to *Achieving Industrialization in East Asia* examines issues having to do with technological change. As in most simple neoclassical writing, technology is assumed away, treated implicitly as an intermediate dependent variable that adjusts easily once the correct (trade-policy-derived) incentive structure is set in place in the economy as a whole.[12]

[11] Director of the Resource Systems Institute at the East-West Center, formerly the chief economist of the Asian Development Bank.

[12] There is, however, a neoclassical economics of induced innovation, both technological and institutional, that is serious and interesting, though lacking (1) a supply side of science, (2) a theory of government-directed institutional and technological innovation (powered by things other than factor scarcities), and (3) a theory of institutional inertia.

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Much of what these neoliberal authors say about the causes of East Asian success is unexceptional. Hughes is right to highlight the role of private enterprise—although it has been a long time since any serious economist urged public enterprises as the main vehicle of development. She is right to imply that in many less developed countries public policies have made matters worse, and that these countries could have done better had their policies been more like East Asia's. And Riedel is quite right to say that markets allocate resources better than do central decision makers without markets (if these are the only choices). But this is pretty anodyne stuff. The problem is that these and other neoliberal economists shy away from subjecting their beliefs to serious empirical test, yet they are powerful enough to get those beliefs widely accepted, especially via international financial institutions like the IMF and the World Bank.

East Asia's Success?

Let us first consider the starting point of the whole exercise, the claim that what is to be explained is the superiority of capitalist East Asia's economic performance compared with that of other "newly industrialized," "late developing," "intermediate," or "semiperipheral" countries. We concentrate on South Korea, which has received the bulk of the attention. Has Korea really been outstandingly *successful*? It is to be remembered that as recently as the mid-1970s some prominent analysts on the Left were writing off Korea as "a house built on sand," a "tottering neo-colony," an export platform whose success would last only as long as wages were kept below those of competitors—this, in explicit contrast to the more viable communist economy of the North.[13] The analysts lambasted the South with chapter titles like "GNP vs. the People" and "South Korean Society: The Deepening Nightmare."

It is true that Korea's record contains plenty that could qualify a eulogy of growth. Life expectancy at birth (sixty-nine years in 1986) is below Sri Lanka's, yet Sri Lanka's per capita income is only a sixth of Korea's; and Korea is in the bottom half of a life expectancy ranking of upper-middle-income countries.[14] The environment has become seriously polluted: Seoul's air is said to have one of the highest concentra-

[13] Aidan Foster-Carter, "North Korea: Development and Self-reliance, a Critical Appraisal," *Bulletin of Concerned Asian Scholars* 9, no. 1 (1977). See also Gavin McCormack and John Gittings, eds., *Crisis in Korea* (Nottingham: Bertrand Russell Peace Foundation, for Spokesman books, 1977). For more discussion on interpretations of South Korean development, see Wade (fn. 5, 1982).

[14] World Bank, *World Development Report 1988* (Washington, D.C.: World Bank, 1988), Table 1.

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tions of sulfur dioxide in the world.[15] Its traffic crawls at not much more than half the speed of traffic in New York or London. Much of the country's urban tap water is said to be unfit for drinking. There is some evidence that the application of exceedingly high levels of chemical fertilizer to meet government targets has harmed the chemical composition of the soil.[16] And in terms of civil and political rights no one holds up South Korea as a model, except in comparison with the North. In the 1970s it came about halfway down a ranking of civil and political rights in middle-income countries; in 1983, about two-thirds of the way down.[17] Surveillance by the secret police has been pervasive, and a formidable coercive capacity remains in place. Independent labor unions have been repressed. The male-female industrial wage gap is, according to Amsden, about the biggest in the world, rivaled only by Japan's. What has happened to such values as civic responsibility, sacrifice, loyalty, and happiness I do not know.

Moreover, Korea's economic importance is often exaggerated, as though it is on the verge of becoming another Japan or Germany (as in Amsden's title, *Asia's Next Giant*). In fact, it accounts for only 0.87 percent of world population (against Japan's 2.6 percent) and only 0.8 percent of world GDP (against Japan's 15.4 percent). In area it is a quarter the size of Japan and less than a quarter of California. Its per capita U.S. dollar income, expressed as a percentage of the average of the Northwest European and North American core, was only 8 percent in 1960, 13 percent in 1980, and 20 percent in 1988. These figures pale alongside Japan's: 23 percent in 1960, 76 percent in 1980, 118 percent in 1988.[18] Korea is hardly a "miracle" in the Japanese context. And it remains, as in 1960, by far the poorest of the four East Asian newly industrialized countries (NICs): per capita income in 1986 was only two-thirds of Taiwan's, one-third of Hong Kong's, and less than one-fifth of Japan's; and it was one-quarter of Britain's and 14 percent of the U.S.'s.[19]

This having been said, Korea is nevertheless outstandingly successful by at least four key indicators. The first is the gain in its relative eco-

[15] *Economist*, "The Environment: A Survey," September 2, 1989, p. 7; Sonya Hepinstall, "A Smell of Success in the Battle against Pollution," *Far Eastern Economic Review*, July 18, 1989, p. 70. Cited in Waldon Bello and Stephanie Rosenfeld, "Dragons in Distress: The Crisis of the NICs," *World Policy Journal* (September 1990).

[16] Wade (fn. 5, 1982), 103 and chap. 5.

[17] Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990), 254.

[18] Giovanni Arrighi, "World Income Inequalities and the Future of Socialism" (Binghampton: Braudel Center, State University of New York, 1990).

[19] The figure was $2,372 in 1986, as against $17,475 for the U.S. and $8,870 for the U.K. See Wade (fn. 17), Table 2.1.

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nomic command over world resources, measured by the increase in per capita income expressed in U.S. dollars.[20] In 1962 Korea ranked 99th in the world, and U.S. aid officials are said to have wondered audibly "whether [it] was to remain indefinitely a pensioner of the United States."[21] A quarter century later, in 1986, it was 44th. In Giovanni Arrighi and Jessica Drangel's large sample of countries, Korea is the only country to have jumped from their "periphery" to their "semiperiphery" between 1938–50 and 1975–83 (Taiwan would have been there, too, had it been included).[22] Its performance was especially good over the 1980s. Whereas in 1976 its per capita income ($670) was less than Malaysia's and a bit more than half of Mexico's and Brazil's, by 1988 its figure of $3,600 was far above the figures for Malaysia, Mexico, and Brazil and about equal that for Portugal.[23] Indeed, Korea (and Taiwan) stand out from virtually all other countries of Eastern Europe and the Third World for having *reduced* the income gap with the Northwest European and North American core between 1980 and 1988. Everywhere else the

[20] Note that use of per capita dollar income to measure increasing or decreasing gaps between countries or regions is always problematic because of the complications introduced by changing real exchange rates (to say nothing about intracountry income distribution). To get a gap measure that more accurately reflects welfare, one should use purchasing power parity measures of income (now available in the tables in the World Bank's annual *World Development Report*) or qualify the dollar gap by changes in real exchange rates (and add terms of trade changes as well). This is especially important in the context of the trend reported later in this paragraph, of a dramatic widening of the gap between core countries and almost everywhere else during the 1980s. The polarization would be less, though still serious, if either of these adjustments were made. Adrian Wood finds that for the period 1965–83 about two-thirds of the increase in the per capita GNP gap between industrial market economies and low-income countries, measured in current U.S. dollars, was due to real changes in the exchange rate; for middle-income countries the gap would have narrowed but for real changes in the exchange rate. See Wood, "Global Trends in Real Exchange Rates, 1960–84," *World Development* 19, no. 4 (1991); and idem, "Puzzling Trends in Real Exchange Rates: A Preliminary Analysis" (Mimeo, Institute of Development Studies, Sussex University, Brighton, 1986). Arrighi's important work is marred by insufficient attention to these matters; the same holds for my own use of per capita income comparisons (fn. 17). Anyone concerned to explain trends in the distribution of world wealth or income must address the question of the real income effects of the secular appreciation of the exchange rates of industrial countries relative to those of the rest of the world. Have such changes caused systematic changes in income distribution between or within countries or regions?

[21] Edward Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980), 181. This claim, that many observers in the 1950s and into the early 1960s considered Korea a "basket case," is often repeated, the better to highlight the subsequent success. I have not seen actual evidence from documentary or other sources. Larry Westphal says (in a personal communication) that Mason et al. drew on his own verbal report, based on U.S. documents that he saw but did not copy while employed as a foreign adviser in the Korean planning agency in the late 1960s. To my knowledge the "basket case" story rests on this.

[22] Arrighi and J. Drangel, "The Stratification of the World-Economy: An Exploration of the Semiperipheral Zone," *Review* 10 (Summer 1986).

[23] World Bank, *World Development Report* (Washington, D.C.: World Bank, 1978, 1990), Table 1.

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dollar gap has widened calamitously.[24] Brazil's average income, for example, rose from 12 percent of the core's in 1960 to 18 percent in 1980, only to drop like a stone back to 12 percent by 1988. This is the Brazilian "miracle."[25]

The second indicator of Korea's success is trade performance: in 1962 Korea was the 40th biggest exporter of manufactures to the U.S.; in 1986, the fifth.

The third indicator is industrial transformation. This does not refer to the rapid rise of industry in total GNP, for by the industry/GNP ratio even Eastern Europe does quite well, thanks partly to the odd way these things are measured. (In a highly protected economy the domestic prices at which industrial products are measured are not world market prices, so the less efficient a sector is in world prices the greater its apparent contribution to GNP.) Rather, the indicator of industrial transformation refers to the rise of skill-intensive, high-value-added industries that are competitive at world market standards of cost and product specifications. The most spectacular Korean case is the semiconductor industry, maker of the leading input of the new technological paradigm.[26] Korea is the world's third biggest producer, after Japan and the U.S., of advanced semiconductor memory chips. Most of the chips are produced by Korean-owned firms, which are drafting closely behind the world leaders, well ahead of all European semiconductor makers. Several other Korean industries—notably, computers, automobiles, steel, and construction—are also having a sizable impact on the world economy.[27]

The final indicator is the removal of poverty, the elimination of severe economic hardship, the expansion of *positive* rights.[28] Consider the number of hours of work it takes an adult male unskilled city laborer to earn the equivalent of one hundred kilograms of the basic food grain. (A composite measure for food plus shelter, qualified by rate of unemployment, would be much more accurate, but data are not available.) Fernand Braudel presents this figure for sites in Western Europe between 1400 and 1950, using wheat. In the fifteenth century and first half of the sixteenth the figure was below 100 hours; it then rose and remained above 100 hours until 1880; by 1920–30 in France it had fallen to between 40 and 60 hours.[29] I have made the calculation for Taiwan, not for Korea,

[24] South Asia is an exception. Its average income in relation to the core fell only slightly, from a dismal 2 percent in 1980 to 1.8 percent in 1988. But see fn. 20.

[25] Arrighi (fn. 18).

[26] See Giovanni Dosi, ed., *Technical Change and Economic Theory* (London: Pinter, 1988).

[27] For a brief account of Korea's automobile industry, see Wade (fn. 17), 309–12; on steel, see Amsden, chap. 12.

[28] C. Fried, *Right and Wrong* (Cambridge: Harvard University Press, 1978).

[29] Braudel, *Civilization and Capitalism, Fifteenth–Eighteenth Century*, vol. 1, *The Structures*

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but the Korean trend would be similar. In Taiwan during the 1950s the figure was in the range of 150–200 hours (as in France from 1700 to 1850). By the early 1980s it had fallen to 40–60 hours, about the same as in France between 1920 and 1930.[30] In Korea it was probably more like 60–80 hours by the early 1980s, like France at the turn of the century. Having lived in an Indian village where a sizable proportion of the population has to put in 230 hours,[31] and in the United States where the figure for those earning the minimum wage was about 15 hours in the mid-1980s (my own figure was half an hour), I give this huge reduction in hardship a big weight in any notion of progress.

Taking these several criteria together, I have no qualms about accepting the mainstream view that the question is, indeed, to explain why Korea and the other Asian NICs have been more successful than other poor countries in the postwar era.[32] As for what those critics on the Left said in the mid 1970s, it is hard to think of a clearer refutation in the whole of social science.[33]

What the Neoliberal Explanation Ignores

To say that the Left critics got it wrong is not to say that the neoliberals got it right. The neoliberals have tended either to ignore contrary evidence *or* to acknowledge it without thought for its theoretical implica-

of Everyday Life (London: Collins, 1981), 135, chart 15. Note that the chart excludes the seventeenth century. And note the mistake in the vertical scale: the line marked 0 should be 10, the line marked 10 should be 20, the line marked 20 should be 30, and so on, in logarithmic order (using units of ten hours). Due to this mistake, I mistakenly reported the results in earlier publications, saying that real wages "rarely" fell so low in western Europe as to cross the 200-hour line. In fact, between 1700 and 1860 about one-third of the observations are at or above 200 hours, and between 1560 and 1600, about two-thirds. This is not rare. See Wade, *Village Republics: Economic Conditions of Collective Action in South India* (Cambridge: Cambridge University Press, 1988), 35; idem, "What Can Economics Learn from East Asian Success?" *Annals* 505 (1989); and idem (fn. 17), 39.

[30] Wade (fn. 17), Table 2.4 and p. 39. The figure for New Delhi in early 1991 was 140–67 hours (Rs. 25–30 per day, 7 hours a day, rice at Rs. 6/kg.); for Cape Town at the same time, about 50 hours (but there commuting costs would be unusually high). The difference highlights South Africa's industrialization problem.

[31] Wade (fn. 29, 1988), 35.

[32] North Korea may show a similar reduction in this indicator of hardship, via central planning, and may have eliminated poverty in food and savings earlier. If so, these are important achievements. But the capacity of the North Korean economy to provide rising real wages and a diversified consumption bundle is much lower than that of South Korea; its political and civil rights are also far more attenuated, and the conditions of work in agriculture and industry probably are far worse.

[33] Another good case is Pahl and Winkler's 1974 prediction that a system of corporatism would be established in Britain "by 1980." See R. Pahl and J. Winkler, "The Coming Corporatism," *New Society* 10 (October 1974). It would be interesting to hear from Gittings, McCormack, Foster-Carter, and the others why they think their predictions for South Korea and North Korea turned out to be so wrong.

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tions. This selective inattention to data that would upset the approved way of interpreting things and the use of repetition as a chief weapon of argument are two strong signs that the neoliberal paradigm is in a degenerative stage, taking on attributes of a disciplined delusional system. Like much Marxist writing of the 1970s, in fact.[34] And like classical economics during the Great Depression, before Keynes's theoretical breakthrough.

Where are the responses to David Evans's finding that the height of protection and static efficiency are much less important for economic performance than the exchange rate and the wage rate?[35] Or to Colin Bradford's finding that "on average there is not any association between outward versus inward orientation and a general measure of price distortion in the two key variables (the exchange rate and the real interest rate)"?[36] Or to Hans Singer's finding that per capita income is a better predictor of economic performance in a large cross section of countries than is inward or outward orientation?[37] Where are the *detailed* examinations of the trade regimes of Korea, Taiwan, and especially pre-1970 Japan—of their inner workings and their effects on both the structure of incentives and output?[38] Where are the detailed neoliberal analyses of the vigorous government efforts to expand national technological capacity in East Asia—efforts that are intended to be selective between industries and that therefore conflict with the injunction against "targeting"?

It is not just that challenges from other scholars are often ignored. It is also that neoliberal interpreters of East Asia are prone to avert their

[34] By way of example, think of the scholasticism of much Marxist writing on a theory of the state. See Martin Carnoy, *The State and Political Theory* (Princeton: Princeton University Press, 1984).

[35] Evans, *Comparative Advantage and Growth: Trade and Development in Theory and Practice* (Hemmel Hempstead: Harvester-Wheatsheaf, 1989), sec. 9.6.

[36] Bradford, "The NICs: Confronting U.S. 'Autonomy,' " in R. Fienberg and V. Kallab, eds., *Adjustment Crisis in the Third World* (New Brunswick, N.J.: Transaction Books, 1984), 125.

[37] Hans Singer, "The *World Development Report 1987* on the Blessings of 'Outward Orientation': A Necessary Correction," *Journal of Development Studies* 24, no. 2 (1988).

[38] Why has Jagdish Bhagwati, one of the most creative of trade theorists, not done more than an elliptical pirouette around the East Asian cases? See Bhagwati, *Protectionism* (Cambridge: MIT Press, 1988). It is curious that so few of those who believe passionately in free trade have looked carefully at Japan's pre-1970 trade regime, which would seem to be a critical case. For further discussion, see Wade (fn. 17), chaps. 3, 5, 10; idem, "How to Manage Trade: Taiwan as a Challenge to Economic" (forthcoming); and idem, "The Rise of East Asian Trading States: How They Managed Their Trade" (Mimeo, Trade Policy Division, World Bank, Washington, D.C., 1988). The latter was written while I worked in the same division of the bank that prepared the bank's policy paper on trade reform. The paper defined issues in import reform as being about how to lift restrictions; it ignored issues of how to manage imports better and said virtually nothing about the East Asian experience of import management.

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eyes from contrary data even when it stares them in the face. So we find that Ian Little,[39] as part of his general argument that Korea succeeded in large part because the government allowed the "right" prices to prevail, cites the fact that the government set high real interest rates through the banking system, as is "right" in a capital-scarce economy. He relates how these high rates stimulated savings, which in turn permitted high levels of (labor-intensive) investment. And at that point in the discussion of the capital market, he stops. But markets, like scissors, have *two* sides: a supply side and a demand side. Had Little moved from the supply side of the capital market to the demand side, he would have had to confront the way that credit was being allocated in Korea. At that point the detailed involvement of the government in credit allocation would have been hard to ignore. The government used "liberal" methods (high administered interest rates, which are liberal only in the sense of corresponding more closely to scarcity value) to get savings into the banking system; it then allocated those savings by "nonliberal" methods, being able to do so by virtue of the fact (not mentioned by Little) that it owned the banks. Its involvement became all the more intense after the early 1970s, when the real interest rate on a large share of bank loans was made very low. For (another detail Little fails to note in a paper written nearly ten years later) the so-called liberal high real interest rate policy prevailed for only a short time, from about 1967 to 1971.[40]

The literature on Taiwan resorts to the same device. In an overview of how Taiwan "did it," Walter Galenson says, "The government made a major contribution toward the facilitation of capital formation by keeping its expenditure down. . . . Taxes were maintained at a relatively low level, averaging about 14 to 15 percent of the GNP."[41] Although Galenson wrote these words in 1981, it had last been true in 1967; in the interim taxes were always higher. In another overview of Taiwan, Little writes that "public industry has until recently been of rapidly declining quantitative importance."[42] But he neglects to mention that from the early

[39] Little formerly held a chair in economics at Oxford University.

[40] Little, "The Experience and Causes of Rapid Labour-Intensive Development in Korea, Taiwan Province, Hong Kong and Singapore; and the Possibilities of Emulation," in Eddy Lee, ed., *Export-led Industrialization and Development* (Geneva: Asian Employment Programme, International Labour Organization, 1981). For the role of the Korean government in credit allocation, see Leroy Jones and Il SaKong, *Government, Business and Entrepreneurship in Economic Development: The Korean Case* (Cambridge: Harvard University Press, 1980).

[41] Galenson, "How to Develop Successfully: The Taiwan Model," in Galenson, *Experiences and Lessons of Economic Development in Taiwan* (Taipei: Institute of Economics, Academia Sinica, 1982), 80. Galenson retired as professor of economics at Cornell University.

[42] Little, "An Economic Reconnaissance," in Walter Galenson, ed., *Economic Growth and Structural Change in Taiwan: The Post-war Experience of the Republic of China* (Ithaca, N.Y.: Cornell University Press, 1979).

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1950s onward Taiwan has had one of the biggest public enterprise sectors outside the communist bloc and sub-Saharan Africa.[43] Both Galenson and Little ignore or downplay facts that would obstruct the neat fit between Taiwan and neoclassical precepts.[44]

To see the same practice outside the East Asian context, consider what Anne Krueger offers as "suggestive evidence," in her phrase, about the effects of government intervention in developing countries, a subject of much interest to political scientists. "There is no evidence that living standards fell in the now-developing countries prior to 1950, a time which many observers associate with a period of laissez-faire," she reports. "In many African countries, however, living standards have been falling—in some cases precipitously—since. The latter period has been one of active government intervention, and there is no other obvious reason for the difference in performance in the two periods."[45] Note several things about this argument. First, for India (which contained more people than Africa and Latin America combined) there *is* evidence that per capita income fell in the several decades prior to independence;[46] and for Africa there is simply no good evidence one way or the other before 1950. Second, colonial governments often went well beyond laissez-faire: in West Africa marketing boards came to be highly extractive organizations;[47] in India the British colonial government used protection against non-U.K. imports to stimulate industry and in this and other ways could not possibly be described as laissez-faire. Third, most *non-*

[43] Wade (fn. 17), Table 6.2.

[44] The recent survey of development economics by Gustav Ranis and Theodore Schultz provides many more examples of how the neoclassical confidence is based on selective inattention—even when the data are in the same volume or the same paper; see Ranis and Schultz, eds., *The State of Development Economics: Progress and Perspectives* (Oxford: Blackwell, 1988). The editors assert that "outward-looking [less developed countries] have achieved relatively rapid growth . . . and have withstood [shocks] better." In the same volume T. N. Srinivasan destroys the evidence for the second part of the proposition; and Ronald Findlay finds the first part "incontrovertible" (p. 79) but then shows (pp. 90–93) that the normal sequence, in Germany, Japan, Britain, and Korea, involved not trade neutrality or "outward-lookingness" but heavily interventionist mercantilism, first protecting import substitutes and then promoting exports. See Michael Lipton's review, *Economic Journal* (September 1989).

[45] Krueger, "Government Failures in Development," *Journal of Economic Perspectives* 4, no. 3 (1990), 12. Krueger was the seniormost economist and the vice president for research at the World Bank between 1982 and 1986.

[46] There is not much doubt that India's food grain availability per person per year declined; but there is some dispute as to whether nonagricultural output increased fast enough to prevent per capita income from falling. Heston's calculations show stagnation in per capita income between 1911 and 1946, but most others show a decline. A. Heston, "National Income," in Dharma Kumar, ed., *The Cambridge Economic History of India*, vol. 2 (Cambridge: Cambridge University Press, 1983).

[47] Peter Bauer, *West African Trade* (1954; reprint, London: Routledge and Keegan Paul, 1963).

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African economies, *including the most successful cases*, have grown subsequently under more interventionist regimes. Indeed, most sub-Saharan African economies grew between 1950 and 1970, even in per capita terms, and many grew faster in the (postindependence, more interventionist) 1960s than in the 1950s. Fourth, to say that there is "no obvious reason" for the difference in Africa's performance between the two periods other than greater government intervention in the second is to ignore several important points. (1) "External" factors have impacted especially adversely on African economies, for reasons that do not reduce to the characteristics of African governments. (2) At independence African economies suffered a major loss of skilled manpower from an already tiny base. (3) The problem is less "too much" government intervention in Africa than that governments are too weakly institutionalized to maintain centralization and control—a combination that quickens the use of "primordial" connections to capture state resources and evade state demands.[48] In short, this evidence is shoddy, not suggestive; or if suggestive, then only in the sense of the pornographer.[49]

My own evidence, illustrated above, suggests that neoliberal economists have been pioneering a whole new principle of causal inference—that to explain superior economic performance one may either simply ignore everything that is not in line with neoliberal prescriptions or assert that it hindered what would otherwise have been an even better performance. When this principle is combined with a wider professional propensity to treat "power" as a third-rank concept (the new 4,000-page *Palgrave Dictionary of Economics* has no entry for "power"),[50] the result

[48] Zambia at independence in 1964 had all of twelve hundred high school graduates. In Botswana in 1965, the year before independence, thirteen students passed their O-level exams. Most sub-Sharan countries at independence were taken over by governments whose leadership group was comprised mainly of people with a primary school education or less. Compare East Asia; see Wade (fn. 17), 64, 190, 217–25. One should (as Krueger does not) link the question of the appropriate types and amounts of government intervention to the educational competence of the government. On the significance for Africa's growth of its debt burden, falling terms of trade, unstable exchange rates, falling aid, and agricultural policies and textile protection in the West, see, e.g., Adrian Hewitt and Hans Singer, "How to Foster Diversification, Not Dependence," *Africa Recovery* 4 (October–December 1990), 36–39; and Gerald K. Helleiner, "Structural Adjustment and Long-Term Development in Sub-saharan Africa" (Paper for workshop on Alternative Development Strategies in Africa, Oxford, December 11–13, 1989); and idem, *Sub-saharan Africa: From Crisis to Sustainable Growth* (Washington D.C.: World Bank, 1989). On the "weak government" hypothesis, see Joel Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1986); the book is good on the "state" side but mischaracterizes African "society" as "strong."

[49] This is not to diminish Krueger's important contributions to economic knowledge, especially in the areas of rent-seeking behavior and trade policy.

[50] Robert Heilbroner, "Economics without Power," *New York Review of Books*, March 3, 1988.

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is an aversion to serious investigation of the role of the state in economic development. Assertions like "success has been achieved [in Korea] *despite* intervention" are put forth without a shred of evidence.[51] In this way the circle is closed, the paradigm is protected, and minds can be set at rest.

Although I have been talking of neoliberal development economics, I do not mean to imply that these strictures apply only to a small subsect of neoclassical economics. *Most* Anglo-American development economists have a mistaken understanding of Korea and Taiwan as "low-intervention" countries, especially with reference to trade, and they rely on this mistaken understanding to validate a low-intervention prescription elsewhere. But because the neoliberals are both more extreme and more uniform than other neoclassicals, they make a sharper target; they also tend to be opinion leaders in the development field, which makes it doubly important to subject their arguments to scrutiny.[52]

Neoliberals say that growth is easy, provided governments do not act to obstruct the natural growth-inducing processes of a capitalist econ-

[51] Deepak Lal, *The Poverty of Development Economics* (London: IEA, Hobart Paperback 16, 1983), 46. Lal is an exponent of what I call the Ptolemaic fallacy; see Wade (fn. 17), 348–49.

[52] Ross Levine and David Renelt have recently provided more evidence of insufficient standards of proof, a problem that applies not only to the work of the neoliberals; see Levine and Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions" (Mimeo, Macroeconomic Adjustment and Growth Division, World Bank, November 29, 1990). They examine the vast literature on cross-country regressions of long-run growth against various policy variables, with a view to determining which conclusions are robust and which are fragile. Robust conclusions are those that survive small changes in the right-hand (i.e., independent) variables. "We find that there is not a strong independent relationship between almost every existing policy indicator and growth. . . . [T]he broad array of fiscal expenditure variables, monetary policy indicators, political stability indexes, human capital and fertility measures considered by the profession are not robustly correlated with growth; and newer indicators that we have assembled to capture exchange rate, tax, and fiscal expenditure policies are also not robustly correlated with growth" (p. 2). The one variable that could not be shaken off by fairly small changes in the specification of the independent variables was investment: "We found a positive and robust correlation between average growth rates and the average share of investment in GDP" (p. 26). I want to draw special attention to their findings on trade and price distortions, the subject that occupies the core of neoclassical development economics: "When controlling for the share of investment in GDP, we could not find a robust independent relationship between any trade or international price distortion indicator and growth" (pp. 19–20). These findings suggest that economists of all stripes ought to be a little more modest than usual in claiming to understand development. But note that the Levine and Renelt findings are based on an unusual notion of robustness; in their work robustness relates to which variables are included or excluded. More familiar notions of robustness relate to changes in sample size, time period, or functional form. Unrobustness in their sense is less significant than unrobustness in the other senses, because according to their criterion any hypothesized growth mechanism that depends essentially on several variables is likely to be found unrobust. For example, their finding that human capital variables are unrobust is unsurprising if one considers that human capital and physical capital are complementary, such that a high rate of human capital formation is unlikely to be an important cause of growth in the absence of fairly rapid physical capital accumulation.

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omy. We come now to two recent books about the newly industrialized, late-industrializing, or semiperipheral economies, books that have in common an emphasis on the difficulties—the unnaturalness—of growth.

Alice Amsden's Interpretation of South Korea's Success

Amsden builds an interpretation of East Asian, specifically Korean, economic success on several kinds of stylized facts that run counter to neoclassical theory and that are ignored or treated with indifference in neoliberal accounts of Korea. They include the following. (1) The Korean state has acted as entrepreneur, banker, and shaper of the industrial structure. (2) It has deliberately distorted the price structure by way of, among other things, subsidies, protection, price controls, and restrictions on incoming and outgoing movements of finance and direct investment. By means of these distortions, it has generated an industrial structure different from what unguided entrepreneurs would have produced on their own. (3) The actions of the Korean state have been complemented by those of large, diversified business groups that have come to occupy a dominant position in the economy—so much so that the combined sales of the top ten rose from 15 percent of GNP in 1974 to (this is one of the most amazing of all Korean statistics) 67 percent in 1984 (Amsden, Table 5.1).[53] With firms of this size and level of diversification, a rather high proportion of transactions in the Korean economy are intrafirm, less subject to the discipline of the market than to the discipline of managerial hierarchies. (4) The state not only actively promotes the growth of the business groups, it also disciplines their use of subsidies and other supports, rewarding those who use subsidies "well" with further help and withdrawing support from those who do not. Its relations with them are anything but the arm's-length relations between government and firms sanctioned by neoclassical theory. These four facts suggest an economy in which government and firms depart quite substantially from the neoclassical model of a successful industrializer.

There is, however, another striking fact about the Korean experience that is more consistent with neoclassical precepts: whereas the government greatly restricted and channeled competition in the domestic market, it also strongly encouraged firms to export, thereby subjecting them to intense competition in foreign markets. Success in export markets came to be the main criterion of good use of subsidies (and hence of distribution of further subsidies); and neoclassical theory does suggest

[53] Sales, of course, are not equal to value added. The true share of these companies in GDP (total value added) is probably one-third to one-half of this 67 percent.

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that that is quite a good proxy for efficient use of resources. (To be more exact, neoclassical theory says that success in export markets is a good proxy for efficiency in resource use provided there is zero bias in incentives to sell abroad or at home; by contrast, a more classical theory of long-run growth might sanction the same criterion even in conditions of net subsidies to exports.)

Late Industrialization

Amsden suggests that these and certain other facts about Korea can be explained as a response to the conditions of "late industrialization." These conditions refer to the handicaps and advantages experienced by market-based economies that initiate industrialization when technologically more advanced firms already exist in other countries. The firms of the late industrializer then have to compete with those established firms that can introduce new technologies fast enough to capture "technology rents" and thereby earn higher profits. This does, of course, allow the late industrializer to acquire, or "borrow," the more codified elements of a given technology without having to develop them for itself. But there is generally a great gap between buying or stealing the codified elements and mastering the technology in production. The lower labor costs of the late industrializer offer another partial advantage in such competition. But since its labor force is much less skilled, the lower labor costs may not compensate for differences in productivity. Late industrializers all tend to construct a similar set of institutions to respond to the handicaps and advantages of lateness. In particular, they tend to develop an entrepreneurial state and diversified business groups.

The State

The state offers subsidies and protection ("subsidies" for short) both to offset the disadvantages faced by national firms in international competition and to move the present industrial structure toward one with higher value-added, more technologically dynamic activities. It does this faster and perhaps along a different path than the free market might have done on its own.

So, for example, as recently as the late 1960s the cost position of Korean manufacturers of cotton textiles was less favorable than that of their Japanese counterparts, *despite lower wages*. To enter export markets on a sizable scale the Korean industry needed subsidies. As Amsden puts it, "Subsidies in Korea were necessary not because of 'distortions' [in particular, the exchange rate was not much distorted] but because the Koreans could not, initially, compete against the Japanese, even in industries such

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as cotton spinning and weaving in which the least developed, most labor-intensive countries supposedly have a comparative advantage" (p. 68). After several years of production experience, however, the cotton textile industry was competitive enough to be weaned off subsidies—a striking fact, in light of experiences elsewhere.

Indeed, (unsubsidized) profit rates in cotton textiles and other light industry came to be substantially *higher* than those in capital-intensive industries, yet from the mid-1970s it was the capital-intensive industries that had the highest rate of export growth. "One may infer from all this," says Amsden, that

> as the capital-intensive industries showed themselves increasingly capable of exporting, they became more attractive for the government to promote. *Their long gestation periods and relatively low profitability through adolescence, however, rendered them relatively less desirable investments to the private firm. The initiative to diversify, therefore, fell to the state.* (p. 88 and Tables 4.1, 4.2; emphasis added)

And she shows further that the leading firms in light industry (notably textiles) did *not* grow into diversified business groups and did not lead the way into the new heavy and chemical industries, as one might expect from the conventional dynamics of comparative advantage. Instead, *new* firms with strong state support undertook the development of the heavy and chemical industry. According to Amsden, then, Korea's entry into heavy and chemical industries and the emergence of cotton textiles as the leading export industry together provide graphic evidence of the need for state dirigisme in conditions of late industrialization.

Business Groups

The business groups of the late industrializer diversify into many different, often unrelated industries in order to spread risks and allow cross-subsidizing of entry into a varied portfolio of necessarily low-end products. They also focus more on the shop-floor level of organization—that is, on the production process itself—because that is where borrowed technology is first made operational and later optimized. This contrasts with more advanced firms, which tend to compete on the basis of *innovation* instead. The strategic focus in those cases is less on the shop floor than on the corporate headquarters, especially the R and D complex, where the major profit-making opportunities are made (and also, one should add, the financial asset management complex, the source of much profitable "paper entrepreneurship"). Amsden makes the point in the form of a hypothesis:

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> Leading firms in late industrializing countries, if they are to penetrate world markets, must adopt unusually pro-active production and operations management policies. By pro-active we mean policies that assign high-quality managers to the shopfloor and inspire initiative on the part of such managers to develop the skills of the work force and to improve process performance. Otherwise the gap in productivity levels with leading firms in advanced countries will not be bridged while the advantage in wage levels narrows. (p. 160)

A disproportionate number of managers will have credentials in engineering, as distinct from a background in generic management or finance.

What matters, then, is not so much the newness of an industrialization process (as in "newly industrized country"), as its lateness as compared with others. Amsden argues that

> the general properties of an industrialization process based on learning, or borrowing, technology are entirely different from those of an industrialization process based on the generation of new products or processes—the hallmark of the First and Second Industrial Revolutions. Thus, the late acquisition of international competitiveness has given rise to certain common tendencies in otherwise diverse countries—Japan, Korea, Taiwan, Turkey, Brazil and Mexico.[54]

(Elsewhere she adds India, p. v).[55] These common tendencies concern the role of the state, the role of the market, and the structure and competitive strategies of business firms. Insofar as there is a single symbol that captures the difference, it is the subsidy.

> The subsidy serves as a symbol of late industrialization. . . . The First Industrial Revolution was built on laissez-faire, the Second on infant industry protection. In late industrialization, the foundation is the subsidy—which includes both protection and financial incentives. The allocation of subsidies has rendered the government not merely a banker, as Gerschenkron (1962) conceived it, but an entrepreneur, using the subsidy to decide what, when, and how much to produce. The subsidy has also changed the process whereby relative prices are determined. (pp. 143–44)

Why Does Korea Do Better?

Why has Korea, together with Japan and Taiwan, done so much better than the other late industrializers? Because, in a word, the institutions of late industrialization have functioned more effectively there than elsewhere. "It may be said that *growth has been faster in Korea not because markets have been allowed to operate more freely but because the subsidiza-*

[54] Alice Amsden, "Third World Industrialization: 'Global Fordism' or a New Model?" *New Left Review* 182 (1990), 14–15.

[55] Also ibid., 5.

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tion process has been qualitatively superior: reciprocal in Korea, unidirectional in most other cases" (Amsden, 145; emphasis added). By "reciprocal," Amsden means that in direct exchange for subsidies of various kinds, the state exacted certain performance standards from firms, notably in the field of exports. Most other late industrializers allocated subsidies without imposing any quid pro quo: "*Where Korea differs from most other late industrializing countries is in the discipline its state exercises over private firms*" (p. 14; emphasis added). Generalizing, Amsden puts forth an audacious proposition: "The more reciprocity that characterizes state-firm relations in these countries, the higher the speed of economic growth" (p. 146).

Learning and Innovation

This argument about Korean and Third World industrialization in general, says Amsden, differs not only from the neoclassical, but also from the Schumpeterian, approach. Schumpeter recognized that by his time market structures had become less competitive than was consistent with the neoclassical paradigm. The new basis of competition—the new source of discipline over firm behavior—came from the creative gales of technological discoveries that uprooted old monopolies and raised productivity, not steadily but in spurts. Late industrialization, however, involves not innovation but "learning," that is, borrowing, adapting, and improving upon foreign designs. The new source of discipline over firm behavior is the state itself, a factor to which the entrepreneurially and technologically driven Schumpeterian model had understandably paid little attention. Late industrialization, much more than early industrialization, has been a political process, shaped by the exigencies of mastering (or learning) already existing technologies. Some commentators have taken the Japanese case as confirmation of the usefulness of the Schumpeterian approach, as in the Schmiegelows' statement that "the evidence of massive penetration of global markets by Japanese Schumpeterian entrepreneurs, of their competitive edge, and of their growing leadership in innovation is so unmistakable, and there is so little that mainstream economics can offer to explain it, that the Austrian [or Schumpeterian] approach enjoys prime facie validity in explaining Japan's impact on the structure of the world economy."[56] Amsden would presumably reply that the Schumpeterian approach is not the only alternative to mainstream economics and that hers does a better job of explaining the Japanese case prior to the early 1970s; she would probably agree with the Schmiege-

[56] H. Schmiegelow and M. Schmiegelow, "How Japan Affects the International System," *International Organization* 44, no. 4 (1990).

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lows that the Schumpeterian better handles the subsequent era, when Japanese firms compete more than before on the basis of innovation and when the state has scaled back its "leadership" role in industrial transformation.[57]

Global Fordism

Her approach also differs from world systems interpretations that present industrialization at the "periphery" (including Korea) as the reflex of problems of capital accumulation in the "core." In Alain Lipietz's formulation,[58] for example, industry in the Third World arises as capital from the core extends the "scale" of its operations in search of new markets and cheap labor. Once installed by means of "primitive Taylorist" modes of labor control, it may then evolve into "peripheral Fordism" when growth in the *home* market for manufactured goods plays a large part in the national "regime of accumulation," as has been true in Korea since about 1973. At this point the tendency toward underconsumption—production exceeding the capacity to consume—becomes a stumbling block to further economic growth, as it is in the core. Amsden answers this sort of argument with several damaging facts about Korea. (1) Even after 1973 Korean growth has *not* been centered on the home market. (2) Korean wages have grown faster than in any other previous or contemporary industrialization, without undermining competitiveness, sustained by even faster productivity growth. (3) Work in the large business firms has not been managed in a Taylorist, top-down fashion.

> Technical ignorance at the highest managerial level, and inexperience on the part of the workforce, have made it impossible for borrowed technology to be optimized through a top-down, Taylorist approach to productivity and quality improvements. Instead, the standardization of work has been accompanied by a more participatory (and, as it turns out, more productive) approach to work relations, not for cultural reasons but for reasons related to technology transfer.[59]

[57] But while MITI's leadership role in the domestic economy has decreased substantially, it has recently been expanding the reach of its industrial planning and coordination into foreign economies, in response to the explosion of Japanese investment abroad and the absence of coherent industrial policy in receiving countries. See Ivor Ries, "Japan's Mighty MITI Extending Its Reach," *Financial Review*, December 18, 19, 20, 1990. I thank Chalmers Johnson for this reference. On leadership as applied to industrial policy, see Robert Wade, "Industrial Policy in East Asia: Does It Lead or Follow the Market?" in Gary Gereffi and Donald Wyman, eds., *Manufacturing Miracles: Patterns of Industrialization in Latin America and East Asia* (Princeton: Princeton University Press, 1990).

[58] Lipietz, *Mirages and Miracles: The Crises of Global Fordism* (London: Verso, 1987). See Amsden (fn. 54) for a discussion of Lipietz.

[59] Amsden (fn. 54), 12–13.

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(4) The state in Korea (and in other late industrializers) has gone well beyond its role in the Fordist model (largely one of creating both effective demand in response to crisis and protection for infant industries).

So neither the Schumpeterian nor the global Fordism approaches can explain the common tendencies of the late industrializers; still less can the neoclassical. Amsden's approach—which could be summarized as "*industrializing through learning, learning through reciprocity between government and diversified business groups, reciprocity involving price-distorting subsidies in exchange for performance*"—constitutes, she says, a new paradigm for understanding late industrialization, which is a new way of industrializing (p. 141).

In a field plagued by stale thinking *Asia's Next Giant* stands out as wonderfully original, powered by a militant, epigrammatic intelligence. The chapters toward the end, on the firm-level dynamics of the evolution of shipbuilding, textiles, cement, and steel, range from offering technical information about production to telling details about social organization. The author relates how, well before the first steel plant had been completed, workers were recruited and trained—even taken out to open fields to rehearse their jobs, shouting orders to one another along imaginary production lines. For given its lack of the cheap natural resources that other NICs like Mexico (gas) and Brazil (ore and hydro) could use to defray the high start-up costs of steel and other capital-intensive industries, Korea had no choice but to compensate by means of a supereffective deployment of its labor force, to discipline and train it as fast as possible.

But there are some serious weaknesses in the argument. Some key propositions are poorly supported, some key concepts are treated as self-evident when they are not, and some alternative mechanisms for which there is reasonable evidence are not considered. Einstein's aphorism that "imagination is more important than knowledge" is taken a bit too literally. In particular, Amsden misses many opportunities to incorporate neoclassical findings into her story, thereby rendering it much weaker than it need be in terms of economic analysis. Nowhere is this more apparent than in what she says about prices.

Getting Prices "Wrong" in Korea

This is the phrase that Amsden emblazons upon her escutcheon as the essence of her theory of economic development.[60] Reversing the conven-

[60] Ibid., 23.

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tional injunction (converting "right" to "wrong" and the sense of "getting" from "letting" to "setting") produces an arresting paradox. But what evidence does she offer, first, for the proposition that relative prices were "wrong" and second, for the proposition that the structure of "wrong" prices was a key element in output growth? Although she does not present it systematically, the evidence seems to be as follows:

1. The export effective exchange rate, which includes subsidies to export sales, was substantially above the official won/dollar exchange rate between 1960 and 1965 (see her Table 3.4, p. 67), and during this time exports took off. Amsden says that export subsidies, as indicated by the gap between the export effective exchange rate and the official exchange rate, "turned the tide." So the volume of exports was not determined by market factors alone, at least in the period covered by her numbers. Note several problems with this argument. First, six years and two sets of numbers are a slender base for causal inference. Second, she says that subsidies (as indicated by the gap between the two exchange rates) increased as exports increased, the former driving the latter. In fact, her own numbers show the opposite: the gap was greatest in 1960, when exports were small and stagnant, and least in 1964 and 1965, when exports were booming. Third, this gap is in any case a poor measure of the bias of the system for or against exports. For that one has to compare the export effective exchange rate with the import effective exchange rate. It is quite possible to increase export subsidies (as measured by her gap) while at the same time giving even more incentives to import substitution (perhaps via quantitative restrictions), making a net increase in the bias against exports. It is this bias, not her gap, that might drive exports; but we are not given the information. Fourth, nor are we given information about the real exchange rate (relative price of traded goods—exports and import substitutes—vis-à-vis nontraded goods). Lacking information on both export bias and the level and movement of the real exchange rate, we cannot make a judgment about whether these prices were "right" or "wrong." Certainly the fact that the export effective exchange rate differed from the official exchange rate (as in most other developing countries) does not in itself mean that either the official rate or the export effective rate was "wrong." In short, Amsden's evidence on this point does not support the conclusions she draws.

2. "Tariff barriers and nontariff barriers have comprised a key ingredient of Korea's industrial policy," she says (p. 145). But we receive virtually no information on the magnitude of protection over time, though such information is available.[61]

3. In the capital market a multiplicity of prices prevailed for loans of the same maturity—one for foreign loans, more than one for domestic commercial bank loans depending on whether they were for a priority use, and one or more for "curb" or informal market loans. Not all of these prices

[61] Wade (fn. 17), chap. 10.

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could possibly have been "right," she says without further ado. This, too, is overly hasty. For one thing, to the extent that the curb market is used for riskier loans than can be granted by commercial banks, neoclassical analysis would predict curb market rates to exceed commercial bank rates on account of differential risk.

4. Price controls have been extensive. "At the end of 1986, as many as 110 commodities were controlled, including flour, sugar, coffee, red pepper, electricity, gas, steel, chemicals, synthetic fibers, paper, drugs, nylon stockings, automobiles, and televisions" (p. 17). A hundred pages later this expands to "the Economic Planning Board controls most prices" (p. 129). Is "most" really the same as "as many as 110"? We have no idea of the share of final demand that is price-controlled over time or of how much the controls bite.

5. Subsidies to the cotton textile makers were needed for quite a few years to enable them to get established in export markets against Japanese competition. Later subsidies to some heavy and chemical industries were needed to induce private capitalists to forgo higher short-term profits in light industry. Amsden's evidence on this score is more convincing than the rest.

Not stopping with the proposition that Korea succeeded because it got prices wrong, Amsden makes a still more arresting claim: "Although Korea industrialized on the basis of relative prices that deviated sharply from free-market equilibria, *such prices were less 'distorted' and provided big business with fewer bonanzas than prices in India, Turkey, and the Latin-American late-industrializing countries*" (p. 145; emphasis added). Or in a slightly different formulation, "In Korea the 'wrong' prices have been right because government discipline over business has enabled subsidies and protection to be less than elsewhere and more effective" (p. vi). This is an intriguing idea, but it is asserted without a shred of evidence. If Korean price distortions have in fact been less than in most other countries, how can we distinguish this argument from the central neoclassical claim that it is precisely *because* price distortions have been less that Korea was more successful?[62]

Furthermore, it is not self-evident that short-run equilibrium prices should be used as the standard of "right" against which actual Korean prices were correctly "wrong." After all, neoclassical theory acknowledges that even markets that operate without government interference

[62] Perhaps Amsden's argument could be clarified by distinguishing three senses of "distortion." One is deviation from the market equilibrium price, which just offsets disadvantages due to "market imperfections" elsewhere in the system. Another is deviation that pulls resources into uses expected to be to the country's future comparative advantage. The third is deviation that provides big windfall gains for little effort. Korea presumably had much less distortion in the third sense than other countries had, but presumably not in the second sense.

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may experience "failures" due to externalities, complementarities, uncertain learning gains, imperfect capital markets, and economies of scale, scope, and time. In such a case the configuration of market prices, which no longer corresponds to economic values or opportunity costs, may send the "wrong" signals, even in conditions of free trade. Neoclassicals argue that empirically these sources of market failure tend to be less important than those caused by government intervention; they therefore prescribe free trade as the way to achieve the best results in the real world of special interests.[63]

Moreover, there *is* a modified neoclassical interpretation of the role of the Korean government: that its various interventions had the aggregate effect of compensating for these failures (as well as for those caused by the "politically driven" components of government intervention) and thus of creating the relative price structure that would have prevailed in an ideal free market. I have elsewhere called this the "simulated free market" theory of East Asian industrial success.[64] I do not find it very convincing, but it does have a place in the literature, and Amsden might have taken it up in an analytical dissection of "wrong" and "right" prices.

Even if we grant that the government helped to get prices (correctly) "wrong," there is still the separate question of the *output* effects of this rigged price structure. Again, this issue is barely raised, it being taken for granted that the effects were not just positive but so positive as to constitute the essence of why Korea did better than the rest. Perhaps Amsden would consider the success of the heavy and chemical industry drive of the 1970s (and she certainly considers it to have been highly successful) as evidence of benign output effects, for it was not the result of free-market forces. But this same heavy and chemical industry drive is routinely cited in the literature as the clincher for the *malign* effects of Korean dirigisme. Amsden might at least have responded to those who say that its costs swamped its benefits. (My own conclusion, incidentally, is that the medium- and long-term benefits did exceed the costs.)[65]

All told, this central plank in Amsden's theory remains in urgent need of empirical reinforcement. A generous reading might say that Amsden has done what many economists before her have done, which is to pre-

[63] See Colclough (fn. 3).

[64] Wade (fn. 17), 23–24.

[65] For a brief discussion, see ibid., chap. 10, esp. 319–20. For a very useful recent study, see Richard Auty, "Creating Comparative Advantage: South Korean Steel and Petrochemicals," *Tijdschrift voor Econ. en Soc. Geografie* 82, no. 1 (1991).

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sent a series of "stylized facts" about how, in her understanding, the world works, leaving it to those who disagree to muster counterevidence. A less generous reading might say that Amsden displays the same disdain for established principles of scientific knowledge as do the neoliberals cited earlier.

The State in Korea

As the initiator of major new investments, the distorter of prices, and the discipliner of big firms and labor, the state has a central place in Amsden's story. Yet she takes what could politely be called an "abstentionist" view toward it. She says almost nothing about how the state is organized, its base of support, its means of survival, and how it maintains its discipline in the exercise of huge discretionary powers. So abstentionist is she, indeed, that the key agencies for industrial and trade policies, the Economic Planning Board and the Ministry of Trade and Industry, are given only three mentions between them in the whole 329 pages. Perhaps it is unfair to expect otherwise in a work of economics.

Role of Manufacturing Productivity Growth

Amsden's argument assumes, implicitly, that the driving force of Korean industrialization was fast growth of productivity in manufacturing (driven by fast "learning"). Thus, her emphasis on the structure and management of business groups. She might have addressed some of the evidence, from Hollis Chenery, Moshe Syrquin, Howard Pack, and others,[66] that partly runs against this argument. To summarize, there is evidence to suggest that prior to the mid-1970s productivity growth in manufacturing was by no means high as compared with growth in other countries at roughly the same income level. But (1) Korea had poor natural resource endowments in comparison with many other low- and middle-income countries; it therefore had no comparative advantage in exports of primary products, which left manufactures as the only broad alternative. (2) It also had a high ratio of people with basic education to people without basic education, again compared with other countries at similar income levels. (3) Agricultural productivity was much lower than in manufacturing. And (4) the physical infrastructure was fairly good. The combination of middling productivity, a high ratio of basically ed-

[66] Chenery, "Growth and Transformation," in Hollis Chenery, Sherwin Robinson, and Moshe Syrquin, eds., *Industrialization and Growth: A Comparative Study* (New York: Oxford University Press, 1986); Syrquin, "Productivity Growth and Factor Reallocation," in Chenery, Robinson, and Syrquin; Pack, "Industrialization and Trade," in Chenery and T. N. Srinivasan, eds., *Handbook of Development Economics* (Amsterdam: North Holland, 1988).

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ucated to uneducated people, a big agriculture-manufacturing gap in productivity, and a fairly good infrastructure allowed Korean manufacturing to compete internationally. But the real driving force before the mid-1970s, according to this argument, was the huge increase in capital and labor inputs into manufacturing (more and more young women behind more and more desks assembling more and more shirts and circuitboards). It was a scale effect, not a productivity effect. These inputs came in substantial part from agriculture, and the economy-wide level of productivity grew fast as resources were reallocated from lower productivity uses in agriculture to higher productivity uses in manufacturing.[67] But the only way to absorb such large amounts of capital and labor in manufacturing without running into rapidly diminishing returns was to export the output, because the domestic market would have been able to absorb the extra output only at the cost of sharp falls in price. This is the single most important way that exports helped Korea's industrialization. Since the mid-1970s, however, with the completion of the reallocation from agriculture, the driving force has been productivity growth within manufacturing.[68] It may well be that the sorts of management practices and firm structure that Amsden emphasizes have been an important part of this growth. But much of Amsden's own account of firms and industries draws on data from *before* that time. This is not to suggest that Amsden is necessarily wrong for the earlier period—one can imagine ways in which her argument could be reconciled with the other evidence. But this other evidence is simply not addressed.

Comparative Advantage: Rigid, Flexible, or Irrelevant?

Did Korea follow its prevailing comparative advantage (CA), or did it engage in activities that were out of line with CA? Neoliberals imply that its industrialization was governed by CA, except for the temporary aberration of the heavy and chemical industry drive that started in the early 1970s and more or less terminated around 1980, as economic rationality again came to prevail. Amsden and also Governor Park (in the epigraph

[67] For the agricultural end of these reallocations, see Moore (fn. 5); on the political control of Korean agriculture and the nonprice methods of achieving relatively high levels of agricultural productivity (cf. standard recipes for agricultural growth and mechanism of Fei-Ranis-type models), see Wade (fn. 5, 1983).

[68] This is likely, but most of the evidence I cite stops short of this period. Pack (fn. 66) suggests that even after the mid-1970s total factor productivity growth was not especially good, and he credits continued rapid absorption of factors, including extra investment. But subsequent evidence suggests to him that productivity growth within manufacturing has indeed been more of a driver than he thought when he wrote the article in Chenery and Srinivasan (fn. 66); Pack, personal communication with author.

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to this article) imply either that it went against CA or that CA was somehow irrelevant. What is at stake? According to the standard theory, specializing according to CA makes for an efficient pattern of resource use, with more intensive use of the more abundant factors and less of the scarcer factors. A country may be able to produce goods out of line with its CA, but those goods, which require a lot of the scarce factors and few of the abundant factors, will not be profitable. Stereotypically, a low-wage, labor-abundant country should concentrate production and exports on labor-intensive products, while importing the more capital-intensive goods from countries where labor is scarcer and capital more abundant. (China can make and launch satellites, but such engineering-intensive industries are not in its CA.) So if Korea departed significantly from CA and yet was still outstandingly successful, one could conclude that something is seriously wrong with the theory. And since the theory forms part of the bedrock of neoclassical economics, this would sound the alarm in many quarters.

There is remarkably little evidence on this central question. It is true that exports have been far more labor-intensive than overall production, a prediction in line with CA theory. But it is also true that from the early 1960s, capital-intensive industries producing intermediates have experienced rates of growth much higher than the manufacturing average, a phenomenon less readily reconciled with CA theory. And we know, too, that most of these industries have had substantial levels of protection, which is also sometimes taken to indicate investment out of line with CA.

On the other hand, Patrick Minford and Adrian Wood[69] have recently argued, contrary to the general understanding, that capital-intensity is almost irrelevant for the determination of CA, especially because noninfrastructural capital is mobile between countries. Rather, it is labor force skills that count. Product categories can be ranked in terms of skill requirements, and the categories that are "appropriate" to a country at any one time (in the sense of being in line with CA) can be read off by comparing their skill requirements with the ratios of highly skilled to basically skilled to unskilled people in the labor force (these ratios determine the scarcity and relative cost of more or less skilled people and therefore

[69] See Minford, "A Labour-based Theory of International Trade," in J. Black and A. MacBean, eds., *Causes of Changes in the Structure of International Trade, 1960–85* (London: Macmillan, 1989); Wood, "A New-Old Theoretical View of North-South Trade, Employment and Wages," Discussion Paper 292 (Sussex: Institute of Development Studies, University of Sussex, 1991). Wood's paper is based on one chapter of his book, *North-South Trade, Employment and Inequality* (London: Oxford University Press, forthcoming).

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the viability of investments that require different combinations of these people).

If this is accepted, we have to say that we simply do not know to what extent the fast growth of capital-intensive industries in Korea was in line with CA, because no one has calculated their skill intensities. We do know that all capital-intensive industries are not skill-intensive and that within industries defined at the three-digit level (industrial chemicals, for example) there are huge variations in skill requirements. We also know that the fact that these industries had protection does not in itself mean that they were against CA. Protection, that is, might have offset market imperfections elsewhere that would have rendered the industries financially unviable without the protection, even if they were economically viable with proper shadow prices. Nor does the fact that these industries grew faster than the manufacturing average in itself mean that they were out of line with CA, for all industrialization involves some growth of upstream sectors, for reasons of transport costs and other advantages of local production. And this growth may be very fast if it comes from a low base. The key question, then, is whether the capital-intensive industries grew faster as a result of policy measures than they would have under conditions of well-functioning free markets.

So one hypothesis is that Korea's industrialization—including the dual-track promotion of some capital-intensive intermediate (and later final) goods alongside labor-intensive goods for export markets—did not depart from CA to any significant extent. This implies that the capital-intensive industries remained within the (rapidly rising) limits of the skilled labor supply, which further implies that the capital-intensive industries of the 1960s and early 1970s (before the heavy and chemical industry drive) had rather low skill requirements.

Another hypothesis, which is more consistent with Amsden-Park, is (1) that Korea stretched its CA (as with a rubber membrane) to cover more skill-intensive industries than would be "normal" in relation to its skill endowments[70] and (2) that this stretching was especially pronounced during the heavy and chemical industry drive (though not absent earlier, as seen in those subsidies used to launch the cotton spinning and weaving industry against Japanese competition). By this interpretation, the Koreans excelled at "learning by doing," which increases the supply of scarce skills and thereby stretches the CA membrane. More precisely, the Koreans excelled at learning by doing *at low cost*. It is as though those

[70] I owe this idea of stretching CA to Adrian Wood.

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men in the field shouting orders at each other on their imaginary production lines were a microcosm of the whole labor force. In many other countries efforts to stretch the CA membrane by investing in advance of skills so as to generate learning-by-doing effects have proved so costly that the projects have eventually folded.

How then to interpret the difficulties that beset many heavy and chemical industries in the late 1970s and early 1980s? The neoliberal hypothesis would say that these difficulties indicate that the heavy and chemical industry drive departed radically from CA. Another hypothesis suggests that the difficulties were due less to the misallocation of resources between sectors, as in CA theory, than to a non-CA-based macroeconomic mechanism. The sheer size and speed of the "big push," coupled with the long gestation period of these industries, caused inflationary pressures, depreciation in the exchange rate, deficits in the balance of payments, and budget deficits. These prompted the government to institute a stabilization package, which caused deflation just when the output from the new industries came on stream, shrinking the market and lowering the returns. The rebound of the Korean economy in the mid-1980s may have been due less to the economic liberalization of the early 1980s (the neoliberal position) than to a combination of the earlier stabilization plus the maturation of the heavy and chemical industries.[71]

The main point, however, is that little is known about the answer to the central question of whether, in what ways, and when Korea departed from its comparative advantage. This is a great handicap for political analysis of the role of the state. For a central question of such analysis is how much, and by what methods, the government determined a pattern of investment allocation that differed from what unguided private businesspeople operating in real markets would have produced. And if there was a difference, to what extent did the government stick to projects that, though financially unviable for private businesspeople, were nevertheless economic at proper shadow prices? Or to what extent did the government disregard this constraint and undertake projects that looked to be economically unviable according to conventional social cost/benefit analysis? This indicates the extent to which the government went against "market forces," and thereby the amount of state power needed to effect the desired investment pattern—the amount of "leadership" as distinct from "followership." Followership is indicated where government sup-

[71] I owe this point to Richard Auty.

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port went to projects that looked to be more or less financially viable at the start. Type I leadership is indicated where government support went to projects that were financially unviable but economically viable ex ante. And type II leadership is indicated where government support went to projects that were economically as well as financially unviable ex ante. A project supported by type II leadership that turns out to be economically successful (for reasons other than unexpected exogenous price changes) poses a greater challenge to economic theory than does a successful project helped by government followership or leadership of type I. This is not to say that the latter two roles are of minor significance. They still give scope for the government to formulate a vision of the appropriate development path and to choose commodity groups within the wide band of CA-consistent products for intensified growth, coordinating entry to these industries so as to reduce the risks of surplus capacity, thereby producing a different, but still CA-consistent, growth path than would be produced by unguided private businesspeople on their own.[72] MITI's role in Japan's supercomputer project (see the second epigraph to this article) may have followed this logic.

Amsden, and the literature in general, pays too little attention to these issues. And one other key part of her argument is also insufficiently developed, as is also true of the wider literature. This concerns "learning."

Industrialization through Learning

In Amsden's schema the central difference between the early and late industrializers is that the former were driven by Schumpeterian innovation and the latter, by "learning." But what is "learning"? It has certainly become a popular word in industrial economics over the past decade or so, for it exudes an aroma of fresh knowledge. Despite its popularity, however, there has been little effort to examine it analytically, to make clear whether and how "learning" differs from or adds to what was talked about before.[73] It remains a terminological disaster area. Ams-

[72] On government leadership and followership of the market, see Wade (fn. 57); and idem (fn. 17), chaps. 1, 10. See also Joseph Stern, "Industrial Targeting in Korea," Discussion Paper no. 343 (Cambridge: Harvard Institute for International Development, 1990). The latter makes an important contribution to the analysis of industrial policy in general and to the literature on Korea, and I regret not coming across it until this paper was going to press.

[73] See Sanjay Lall, *Learning to Industrialize: The Acquisition of Technological Capability by India* (London: Macmillan, 1988). "Learning" makes a jazzy title but receives little conceptual attention; it seems to be used as a single word to mean "technological change that leads to productivity growth." The problem is that the word seems to indicate some specific mechanism of causality, but this promise is not fulfilled in Lall's (or Amsden's) discussion. For a useful overview of some of the problems, see Martin Bell, " 'Learning' and the Accumulation of Industrial Technological Capacity in Developing Countries," in Martin Fransman and

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den sometimes talks of learning, implicitly, as any continuous technological change that is not pushed by formal research and development, leaving R and D to be linked to innovation. But to oppose learning and R and D as in some sense mutually exclusive is misleading. Japan as a late industrializer in the 1950s was doing plenty of R and D. And the recent Korean upsurge in R and D does not signify the end of Korea's status as a late industrializer (except in semiconductors). Most of its R and D is aimed at making it competitive in more advanced but still "follower" products and processes, as occurred in Japan up to the early 1970s. R and D in these cases has the primary function not of producing innovations but of allowing firms to absorb and master new knowledge produced elsewhere.

If the distinction between learning and innovation is less clear than Amsden would have it, the distinction between various meanings of "learning" has to be made sharper. There is first the learning of "the learning curve," the relationship between output per unit input and some measure of experience of production (cumulative volume or time). The relationship is described as the "rate of learning." Then there is the quite distinct sense of learning as an amassing of knowledge, of expertise—a change on the *inputs* side that may or may not be associated with changes on the outputs side. This in turn has to be subdivided. "Learning by doing," the focus of much work in industrial economics in recent years, is often and probably mistakenly taken to be a relatively automatic process by which a firm becomes more practiced, and hence more efficient, at what it is already doing. Finally, learning in the sense of "expanding absorptive capacity" refers to the ability of a firm, industry, or national set of industries to identify, assimilate, and exploit already existing technological knowledge about processes and products new to the firm, industry, or country.[74] Amsden is by no means alone in using the one label for the many concepts, but given that "learning" stands in her theory as gasoline to the automobile, it would have been helpful to have some explanation of her own usage. The Korean experience would confirm, I suspect, that much of the improvement in productivity commonly described as the result of "learning by doing" is the result of sustained, deliberate, and cost-full efforts at improvements—efforts to get more knowledge of production materials and of the ways they may be com-

Kenneth King, eds., *Technological Capability in the Third World* (London: Macmillan, 1984). I am grateful to Bell for discussion on some of these points.

[74] See Bell (fn. 73); and W. Cohen and D. Levinthal, "Innovation and Learning: The Two Faces of R&D," *Economic Journal* 99 (September 1990).

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bined to permit machines to run at faster speeds, for example, efforts that are not (formal) R and D–intensive but that are certainly production-engineering-intensive. Indeed, Amsden's cases show that such effort was a dominant concern of Korean managers. What drives learning in this sense is the frame of mind that asks how a particular task can be performed better.[75] What is it that helps this frame of mind to become pervasive? And to the extent that learning is more than a matter of going out and acquiring a new machine, what other steps must be taken and how can public policy accelerate them? These questions should be central to a discussion of industrialization, comparative advantage, and industrial targeting. But before they can be asked, the distinctions have to be made.[76]

To recap: Key concepts in Amsden's argument—the state, learning, and wrong prices—are underdescribed and underanalyzed. Key causal arguments are not assessed against other possibilities—"learning via conditional allocation of price-distorting subsidies" against, for example, "reallocation from agriculture to manufacturing," or "heavy investment in education plus learning by doing at low cost," or "lower price distortions than in other developing countries," or some others to be referred to below. Nonetheless, Amsden is surely right to highlight the synergy between state industrial policies and the strategies of diversified business groups, and she has conceptualized this synergy in a promising new way.

Stephan Haggard's Interpretation of East Asian Success and Latin American Failure

Whereas Amsden challenges the neoclassical mainstream of development economics by reinterpreting one unusually successful case, Stephan Haggard jumps off from a standard neoclassical conclusion and goes on

[75] See Joseph Stiglitz, "Learning to Learn, Localized Learning and Technical Progress," in Partha Dasgupta and Paul Stoneman, eds., *Economic Policy and Technological Performance* (Cambridge: Cambridge University Press, 1987).

[76] Amsden is undertaking research in Thailand, Malaysia, and Indonesia to test an important but unsupported argument in the book: "The general properties of an industrialization process based on learning, or borrowing technology are entirely different from those of an industrialization process based on the generation of new products or processes. . . . Thus, the late acquisition of international competitiveness has given rise to certain common tendencies in otherwise diverse countries." That is, the other, less successful late industrializers have states with a set of roles broadly similar to Korea's that they carry out less effectively, price structures that are also "wrong" but less rightly "wrong," diversified business groups that are less diversified than Korea's but still more diversified and centrally managed than those of the West, and a strategic focus within firms on the shop floor but with fewer engineers and more top-down management.

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to address the left-out politics. "The crucial difference between the East Asian and Latin American NICs," he says, "is the difference between industrialization through exports and import substitution" (p. 27). Given this, *why* have governments of industrializing countries adopted certain development strategies, and why, more importantly, have they changed them? For "the success of the East Asian NICs rested not only on certain discrete policies but on the particular political and institutional context that allowed the NICs to adopt those policies in the first place" (p. 21). Conversely, the relative failure of the Latin American NICs was due to a political and institutional context that strongly inclined their governments to adopt and maintain policies of secondary import substitution, despite the slower growth and income-unequalizing effects of those policies.

Haggard distinguishes three development trajectories among the NICs: the import-substitution (IS) trajectory, exemplified by Brazil and Mexico; the export-led (EL) trajectory, as in Korea and Taiwan; and the entrepôt trajectory, as in Singapore and Hong Kong. Each trajectory is in turn divided into phases. The IS trajectory begins with a primary product-export phase (Brazil, pre-1930; Mexico, prerevolution); that gives way to IS phase 1 (Brazil and Mexico, 1935–55); then to IS phase 2 (1955–65); then to IS phase 3 (1965–present). The EL trajectory also begins with a primary product-export phase (Korea and Taiwan, 1900–1945) that gives way to an IS phase 1 (Korea, 1945–64; Taiwan, 1945–60). That, however, is followed by EL phase 1 (through 1970) and next by EL phase 2 (1970–present). Each phase has an associated economic structure (or changes thereof) and associated economic policies. This schema highlights the disjunction between the two main trajectories at the end of IS phase 1 (the two prior phases are much the same, as also is the final phase of both). But the sameness of the final phase departs from a very different base, namely, the growth mechanism in place at the end of the penultimate phase, one based on secondary import substitution (that is, domestic production of capital and intermediate goods), the other based on exports of the consumer goods items whose imports were substituted for in IS phase 1. The key analytical question is therefore what accounts for the divergence. Why did the Latin Americans around 1955 continue to deepen their industry rather than export the consumer goods (and other light industrial goods) whose domestic production became well established in the prior phase? As the evidence came in during the late 1960s that the East Asians were doing better, why did the Latin Americans not switch to the superior pathway?

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Haggard's general answer is that four kinds of factors bear on policy choices of this type: international factors, domestic coalitions, political institutions, and ideas. Further, he suggests on the basis of the six cases that their general causal weight can be stated as follows:

> International pressures [e.g., balance of payments deficits, political conflicts with trading partners] are the most powerful stimulus to policy reform. The strength of different social groups—agricultural interests, labor, and business—can constrain or widen the feasible set of policy reforms, but it is difficult to explain policy outcomes by reference to coalitional interests alone, particularly where social groups are poorly organized, interests are subject to uncertainty, and states are "strong." . . . [In addition] explaining the reform process demands we pay attention to the interests of politicians, the institutional context in which they operate, and the ideas available to them concerning economic growth. (pp. 28–29)

So in the Korean case, the fateful shift to EL growth in the mid-1960s "can . . . be traced to external pressures" (p. 61), namely, declining U.S. aid (which financed four-fifths of imports in 1955) and greater U.S. readiness to press for economic policy reforms using the threat of aid cutoff as leverage. This growing external pressure acted in conjunction with institutional and political changes initiated after 1961 at the domestic level by the incoming Park regime, a military regime that enjoyed much greater "autonomy" than the preceding Rhee regime. Using its greater autonomy, it concentrated decision making in the executive, rationalized the economic policy-making machinery, and developed new policy instruments for steering industrialization. But even with these institutional changes, the policies themselves differed little at first from those of the previous regime. In particular, the same lack of budgetary and fiscal discipline generated high inflation, as Park tried to buy support from key groups (notably farmers, with above-market food prices). As the imbalances grew, the U.S. in 1962 suspended all aid in an effort to bring spending and income into line. Unrest grew. At this desperate point, the political and military leaders granted the technocrats in the newly restructured policy-making apparatus more scope than before, and the latters' *ideas* about the industrialization process came to be a key factor in the determination of subsequent policy. They and U.S. advisers had for years been emphasizing the importance of stabilization, reform of the exchange rate, and promotion of exports; now, in crisis, their time came.

Compare Brazil a decade before, in the early 1950s. It was at an equivalent point in its trajectory, at the end of its IS phase 1. The fact that it plunged into IS phase 2 instead of switching to EL phase 1 is due, Hag-

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gard suggests, to a combination of factors. First, frequent balance-of-payments deficits ("external shocks") in the late 1940s and early 1950s forced the government to consider changes in economic policies. Second, the choice of IS deepening was influenced by the balance of class forces. Landed elites still constituted an important political force (in contrast to East Asia), but prior industrialization had spawned a substantial labor movement (also in contrast to East Asia) and had created a sizable business and professional middle class. A shift to outward-oriented policies, involving devaluation and import liberalization, would have benefited the existing agro-exporting sector over manufacturing. But those whose income derived from manufacturing "had an interest in continuing an inward-looking industrial course" (p. 172). Third, one important section of the agro-exporting elite also had an interest in avoiding outward-oriented policies, namely, the coffee growers. Since Brazil was a dominant supplier to the world market and since the demand for coffee was price inelastic, devaluation (instead of trade controls as a response to balance-of-payments difficulties) would have meant lower receipts for coffee.[77] Fourth, the commitment of the leading politicians (Vargas, Kubitschek) to the new course was important in overriding opposition to aspects of the IS phase 2 package on the part of some of the middle class and some of the landed elite. (There was, for example, opposition to the expanded role of the state and to the entry of foreign firms.) That commitment was based upon the way that the various policies allowed politicians to weave together a support base from a coalition of disparate groups. And finally, the technocrats bought the "structuralist" ideas, then associated with Raul Prebisch and the Economic Commission for Latin America (ECLA), that sanctioned an active state role to promote secondary IS. So, too (sur-

[77] Haggard does not say why he thinks this is true. It would be worth a little economic analysis, even in a work of political economy—if only to be able to distinguish between "real" economic objections to devaluation and those that conceal some other agenda. A devaluation would *increase* local currency receipts from coffee at a constant world price. But then after a lag Brazilian supply would increase (assuming no production controls), pushing out the world supply curve and lowering the world price. Would this wipe out the gains to Brazilian coffee producers? Suppose Brazil had 50 percent of the world coffee market. Suppose a given devaluation gives rise to a 10 percent increase in Brazilian supply, making a 5 percent increase in world supply. For Brazil to loose revenue in foreign currency, this 5 percent increase in world supply would have to cause a fall in world price by more than 10 percent (demand elasticity of less than 0.5). I do not know whether these values are accurate for Brazil of the mid-1950s, but they could easily enough be checked. There is then a further complication. What mattered to Brazilian coffee growers was presumably not coffee revenues in foreign currency but the value of their domestic currency receipts; devaluation would have lowered the value of each unit of domestic currency, other things being equal, because imports would cost more. So the economics of the alleged opposition of the coffee growers to devaluation is not entirely straightforward.

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prisingly in view of later trends), did U.S. advisers, who at this time had a significant role in Brazil, as in East Asia. So it is not the case that Brazil's new industrialization project of the early to mid-1950s simply responded to, or followed, coalitional interests: "Developmentalist economic policies led, as much as followed, the interests of this new coalition" (p. 173). The ideas of technocrats do matter, sometimes.

And that, in the context of Korea and Brazil, is Haggard's answer to the "profound puzzle" posed at the beginning of his book: "If neoclassical [EL] policies are so superior, why are they so infrequently adopted?" (p. 9). Haggard brings the trajectories up to the late 1980s and also traces the movement of Hong Kong and Singapore along their own entrepôt path.

To my knowledge, this is the first book by a single author to make back-to-back, political as well as economic comparisons between as many as six NICs in two regions. It outlines a usable framework for comparing and explaining development paths and, in a brave departure from conventional assumptions, pays attention to the importance of *ideas*—all in under two hundred pages. (The last third of the book is taken up with three stand-alone essays on the relationship between development strategy and foreign direct investment, income distribution, and political regime, respectively.) Some of the weaknesses of the argument can be put down to the severe compression of a mass of literature on each country; conversely, its very brevity (and abundant citations of the literature) make it a good overview of economic and political trends in these countries. Let us consider two of the weaknesses.

Industrialization through Exports and Import Substitution

One problem lies in the starting assumption that "the crucial difference" in economic performance between East Asia and Latin America is "the difference between industrialization through exports and import substitution." Since this distinction is the key to the whole discussion, one would expect some clarification of what it means as well as some discussion of the empirical evidence on which it rests. There is none. In fact, a conceptual confusion between *outcomes* and *policy-based incentives* permeates the discussion. "Import substitution" can refer to outcomes (a rising proportion of consumption of a given item met from domestic production) or to incentives (net incentives to sell a given item on the domestic market rather than abroad). Growth may be export-led (in the sense of export growth causing output growth) without an export or outward orientation; and an outward orientation may not generate ex-

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port-led growth. Distinctions like these need to be made if there is to be any objective basis for distinguishing between different phases of growth, as there is not in Haggard's discussion.[78]

I have discussed the empirical evidence about the importance of the distinction elsewhere.[79] Suffice it to say that there is some evidence against the propositions that (1) Taiwan and Korea had export-led growth, (2) they had outward-oriented trade regimes, and (3) they did so much better than Brazil and Mexico largely on account of either or both of these differences.[80] I do not say that this counterevidence is either straightforward or conclusive, still less that the trade *openness* of Taiwan and Korea had nothing to do with their superior performance. But it does seem important to start the political analysis with a clear statement of what the economic dependent variables are and with some discussion of the evidence about their importance.

It is important, too, to fashion a political explanation that takes account of economic constraints. It is misleading to imply that Latin America could simply have switched to EL phase 1 if only the balance of class forces and the "politics" had been different. The economic constraints, especially Latin America's relatively good endowment of natural resources and its effect on labor costs and labor skills, were much more limiting than such a "political" explanation suggests, as we shall shortly see.

Thin Politics

A second problem with Haggard's argument is that the discussion of politics is curiously truncated. There is of course a lot about how "external shocks" (generally not specified as to magnitude) change the incentives facing incumbent or would-be political leaders and thereby trigger changes in strategy. There is also plenty about how the EL reforms were helped by preceding "political" changes, such as centralization of decision-making power and the greater autonomy of technocrats. But we never learn much about *why* these changes occur, although that would be a natural path to follow in doing political analysis.

[78] To be fair, there has been much confusion, conceptual as well as terminological, in the economics literature on trade policy. A first step toward clarity is to distinguish market and nonmarket bias, tradables and nontradables bias, and export and import bias, concepts that can be applied to many types of policies (not just to trade policies but also, for example, to labor market policies). A helpful paper is Sebastian Edwards, "Openness, Outward Orientation, Trade Liberalization, and Economic Performance in Developing Countries," PPR Working Paper 191 (Washington D.C.: World Bank, 1989).

[79] Wade (fn. 17), pp. 15–21, chap. 5, p. 308.

[80] Ibid., esp. chap. 1, pp. 15–21, chap. 5, chap. 10, pp. 307–9, 333–42.

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The most striking omission has to do with "social coalitions," however. Coalitions are, as we saw, one of four major sets of factors that affect the switch of development strategy. Accordingly, there are dozens of references to coalitions in Haggard's six country studies. Yet in not a single case is there any analysis of what the coalition is, how it is organized, what its role is, who its opponents are, how much influence it wields, and so on. Generally the existence of a "coalition" seems to be inferred from the fact that some economic categories (business, labor, landed elite) have some interests in common, or at least appear to an outsider as though they should have some interests in common. This inference is then used to support a proposition about their support or opposition to a particular policy.

Take a small example. Haggard argues that during the 1970s and 1980s Taiwan followed a more "liberal" course than Korea. Why? Partly because Taiwan's greater dependence on trade created "an export-oriented coalition heavily dependent on world markets" (p. 139) that was presumably stronger than Korea's "export-oriented coalition" (although this is not stated). Of the six countries in the sample I know Taiwan best, and I simply do not know what is meant by Taiwan's export-oriented coalition. Is it a set of organizations? If so, does it have significant autonomy? Does it lobby the government to do things the government would not otherwise do? Even without such a "coalition" would not the government in any event be responsive to the needs of exporters because of the importance of exports for growth and legitimacy? If yes, how important is the coalition in shaping Taiwan's more liberal course, assuming that it exists?

Or take the argument for Brazil summarized above. The fateful shift to IS phase 2 occurred in part because of the commitment of leading politicians to the IS phase 2 package. Why were they so committed? Because various parts of the package allowed them to "weav[e] together a coalition of . . . disparate groups." But this is the end of the analysis, not the beginning, and thus we have not a clue as to *how* the elements of the package allowed the leaders to weave together this coalition, whatever the coalition might have been. Given that the Latin American failure to go for EL phase 1 is the key focus for a *political* analysis (because, according to Haggard, the East Asian push into EL phase 1 was in line with economic rationality), the failure to analyze the coalitional basis for the transition is a serious drawback.

To be fair, "interest groups" and "coalitions" do lend themselves to the sloppiest kind of reasoning in the whole of political science. Their

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existence is often inferred from the asserted fact of common interests, and their influence is in turn inferred from policy outcomes in line with those interests, their influence then being used to explain the outcomes—to yield, in sum, one great tautology. But this is no excuse for perpetuating the practice. From Haggard's book we learn regrettably little about what should be at the heart of a politics of economic growth: rulers' and would-be rulers' calculations, that is, how they attempt to secure support, by what mix of policies, designed to appeal to which groups, with what political success, and at what economic cost.[81] (Why, for example, was Park able to translate fast economic growth into political legitimacy whereas Chun was not?) Nor do we learn much about the circumstances in which "growth coalitions" form or the circumstances in which rapid growth occurs without growth coalitions or the circumstances in which growth coalitions exist without rapid growth.

These questions should have been addressed in the missing conclusion. Moreover, the country results could have been tested against some explicitly formulated hypotheses; for example:

1. Authoritarian regimes are more likely to succeed in switching and then sustaining development strategies, whatever the direction of the switch.
2. Newly formed governments are more likely to attempt to switch strategies.
3. A sudden worsening of economic conditions (say, a fall in per capita income by x percent over y years, or the near exhaustion of foreign exchange reserves) is likely to precede a switch in policy.
4. A struggle between "interest groups" (outside the state) is also likely to precede a switch in policy, with a tendency for polarization into antireform and proreform groups, the latter eventually becoming dominant.
5. A sustained switch to EL strategy is likely to be accompanied by a sizable inflow of foreign aid or loans, to bridge the gap between the bad news of the adjustment policies and the good news of the (expected) supply response.

The six case studies suggest additional issues for consideration, as well. A study of the politics of policy change should address the paradox of reform first enunciated by Machiavelli and cited by Haggard in his epigraph but not referred to again, that the reformer "has for enemies all who have done well under the old order of things, and lukewarm de-

[81] For a case study along these lines that provides a quantitative estimate of how much economic benefit Italy's rulers were prepared to give up in order to raise political support, see Wade, "Regional Policy in a Severe International Environment: Politics and Markets in South Italy," *Pacific Viewpoint* 23 (October 1982).

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fenders in those who may do well under the new."[82] The balance can be tipped by such things as a short time between the costs being incurred and benefits being received, confidence that the government will persist in the new course, sizable expected benefits to important groups, and limited channels for expressing opposition.[83]

Amsden and Haggard have produced books that substantially advance our understanding of East Asian economic performance, one by proposing a new economic mechanism, the other by elucidating the politics behind the mechanism of the economics mainstream. But they do have certain shortcomings in common. Neither of them adequately addresses the connection between the world system and the development experiences of their chosen countries, and neither explains why the East Asian states remained relatively well disciplined in their use of an awesome amount of public power. These are central issues. My own short answers are as follows.

World System and National Capacity

To the neoclassical eye development is like a marathon: the determinants of each country's position are a function of factors largely internal to itself. All countries should be able, *conceptually*, to cross the finish line simultaneously. There is no inherent reason why some must remain behind others, no inherent hierarchical ordering. The experience of Korea, Taiwan, and Japan is taken to validate the belief that the opportunities for rapid development are virtually unlimited and open to any economy. The authors dealt with here, including Amsden, share this basic assumption. Of course, in Amsden's theory the institutions of latecomers are much shaped by the coexistence of more developed countries. The effort to compete against firms in the latter fosters the emergence of certain state roles and forms of business organization in the former. But beyond this Amsden says little about the impact of the world system on late developers. She differs from the neoclassicals mainly in her view of *how* latecomers avail themselves of the limitless opportunities: not by "market relaxation and state compression" but by "technological learning through condition-bound allocation of subsidies."

We should distinguish between the questions of what caused, or allowed, the NIC phenomenon itself and what determined which countries

[82] N. Machiavelli, *The Prince* (London: J. M. Dent, Everyman edition, 1968), 29.

[83] This paragraph draws on John Toye, "Interest Group Politics and the Implementation of Adjustment Policies in Sub-saharan Africa" (Mimeo, Institute of Development Studies, Brighton, 1991).

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would become NICs. When Korea and Taiwan began their rapid rise up the world wealth hierarchy in the early to mid-1960s, several circumstances came together in the world economy that facilitated the NIC phenomenon. First, transport costs and trade barriers in core markets (North America and Northwestern Europe) were tumbling. Second, competition intensified within the U.S. market, especially with the entry of Japanese manufactures. Third, the accumulation of higher skills in the core work force made "unskilled" labor scarcer and therefore more expensive, which enhanced the comparative advantage of lower-income countries with a less-skilled labor force and created a demand for imports produced by such labor. All three factors combined to prompt U.S. buyers to search out low-cost suppliers in faraway places.

Latin America might have been chosen. But its abundant natural resource endowment (crudely expressed in a high man/land ratio) reduced the need to export any sort of manufactures, because enough foreign exchange came from natural resource exports to finance imports. Its natural resources therefore supported an exchange rate and wage rate too high to compete in world manufacturing markets against countries at similar income levels but without natural resources. This explains why the total volume of manufactured exports from Latin America remained small. Moreover, within this small total volume, the composition was skewed toward products that required highly skilled labor to produce and away from cheap labor products that required large amounts of basically skilled labor. This is because of the skill mix of the labor force. Latin America had a relatively low ratio of basically skilled to unskilled people and a relatively high ratio of highly skilled to basically skilled people. This skill mix, in turn, may have been caused by the ownership pattern of the natural resources and the resulting politics. Governments controlled by an elite that owned the natural resources saw no particular need to extend basic education throughout the labor force, for the exploitation of the natural resources did not depend on a large supply of basically skilled people. But the elites did want to expand tertiary education sufficiently to professionalize their own children. Hence, secondary education was often expensive; tertiary education was often cheap. For all these reasons, then, Latin America was an unlikely candidate for supplier of cheap labor manufactured exports. Notice that Latin America's notorious inward-looking trade regime emerges from this explanation as more a result than a cause of the region's poor performance in manufactured exports, quite contrary to the neoliberal argument.[84]

[84] This sets up a puzzle about Malaysia, which has drawn on a good natural resource

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Korea and Taiwan benefited from the converse. They had no natural resources to cause a "Dutch disease" effect on the exchange rate and wages or to cause a government controlled by owners of natural resources to neglect education. Labor was their only resource; and their populations were unusually greedy for (comparative advantage–changing) education. Moreover, their timing was lucky. They began to experience the limits of further primary import substitution later than Latin America, just as U.S. buyers were beginning to hunt for foreign producers using cheap labor. And by this time they had developed a highly productive agriculture from which resources for further industrialization could be squeezed without imperiling food security.

In addition, they were blessed by geopolitics, located as they are on the fault line of post–Second World War global politics, abutting communist Asia. They therefore took on unusually great importance in U.S. eyes, which reinforced U.S. concern for their economic growth (more than for Latin America's), a concern that translated into massive aid, good access to the biggest, richest market in the world, and U.S. tolerance of their import barriers and state support for U.S. companies wishing to invest there. Location on the fault line eventually came to matter less than did proximity to Japan, since 1960 the most dynamic economy in the world. Proximity, cultural affinity, and historical familiarity all helped to create an important "neighborhood" growth effect, not just in terms of trade but also in terms of the plausibility of Japan as a model for emulation.

Of course, all these opportunities might have been frittered away. That they were not had a lot to do with the existence in Korea and Taiwan of a state apparatus that was both authoritarian in relation to its subjects and disciplined within itself, and that used its power to pursue the goals of military strength and national economic wealth. Why was it disciplined and competent? If it is true that bigger and better markets (often) need bigger and better states, it is also true that bigger states (often) seek to control or remove markets.[85]

There is no simple answer. We need to think in terms of an interacting combination of elements within which causal priority is difficult to determine—more in terms of opening a combination lock than a padlock.

First, there was the discipline of the market and private property. Unlike Russia, China, and North Korea, these states never carried their

endowment with much less of these predicted effects. Its per capita income is about the same as Korea's.

[85] Lipton, "The State-Market Dilemma, Civil Society, and Structural Adjustment," *Round Table* 317 (1991).

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admiration for the state to the point of having it provide haircuts and make shoes. Control of most of the economy's productive assets by private capitalists meant that government officials had to pay close attention to how their decisions affected profits. Second, there was the discipline of a rapidly growing pool of technically educated manpower, which again differentiates them from the Asian communist cases and from most other developing countries as well. This rapidly growing pool provided the civil service with an ample supply of well-educated managers and professionals and at the same time provided a growing source of outside technical comment on government policies via a press that was fairly free to voice technical criticisms. Third, compared with many other developing countries, Korea and Taiwan were culturally fairly unified, removing a common source of indiscipline and making the creation of a strong nation-state that much easier.

The civil service could draw on an endowment of a long experience of state rule and well-institutionalized procedures. More than this, it had a culture of social responsibility inculcated by the educational system. State officials were products of a tradition in which the school played both roles that in Western societies are divided between school and church: developing the intellect and developing a conscience. The two were linked by the teaching of explicit ethical rules, the demands of conscience being strengthened by fear of angering an amorphous deity who demands not obedience but responsible behavior toward society. High prestige has accrued to public officials because they are considered to embody this ideal of social responsibility; many of the best and brightest still opt for a low-paid civil service job rather than a more lucrative one in "basely self-seeking = neoclassical profit-maximizing" private industry.[86]

The structure of state-society relations allowed the civil service to operationalize a sense of social responsibility with relatively little concession to the demands of narrow interest groups. Such groups were enfeebled or thwarted altogether by both the Japanese colonial and the postindependence governments (a result facilitated by the lack of a natural resource–owning elite). What emerged was an unattractive kind of regime,

[86] A study of Hong Kong, the U.S., and France found that the Chinese respondents had a significantly higher capacity "for understanding the abstract notion of socio-political responsibility at the societal level." A Taiwanese educator has written that "social science ought to emphasize the development in children of moral concepts, group consciousness, patriotic thoughts, habits of cooperation, the attitude of service and the spirit of sacrifice, etc."; see Richard Wilson, "Moral Behavior in Chinese Society: A Theoretical Perspective," in R. Wilson, S. Greenblatt, and A. Wilson, eds., *Moral Behavior in Chinese Society* (New York: Praeger, 1981). See further Wade (fn. 17), chaps. 7, 10; and Ronald Dore, "Reflections on Culture and Social Change," in Gereffi and Wyman (fn. 57).

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promoting a blend of puritanical nationalism and rule by police and military might quite similar to China's and North Korea's, except that it also contained violently anticommunist measures reminiscent of pre–Second World War agrarian fascist states like Portugal, Poland, and Hungary. On the other hand, at least Adam Smith's great fear of the invisible hand of merchants behind the very visible hand of government had not much basis here. And not being perforated and pressured by outside interest groups, the bureaucracy could more easily demonstrate competence. Furthermore, the weakness of middle-class organization, compared with Latin America, meant that less foreign exchange had to be spent on imported consumer goods, easing pressure on the balance of payments. At the same time the state created a variety of channels of information feedback about private sector capabilities and preferences.

But why did the rulers and the bureaucracy elevate *economic* goals to such importance? Here we have to bring in a number of external contingencies to complement the economic and bureaucratic endowments just described. First, the looming external threat: whereas the governments of most other developing countries know that they can fail economically and not risk invasion, the governments and elites of these countries knew that without fast economic growth and social stability this could well happen. This led them to make an unusually close coupling of national security and economic strength. As earlier in Japan, the economic bureaucracy was given responsibility for directing resources to enhance the war potential of manufacturing, an objective subsequently extended, with the same "can do" orientation, to joining the advanced Western world as fast as possible. The constant sense of external threat also helped to discipline the bureaucracy and to elicit more tolerance of measures of internal repression on the part of the population at large.

Second, the U.S. used its considerable influence to discipline the state's use of resources in line with economic (as well as military) goals. This reinforced the effect of the external threat by discouraging the rulers from using the state largely as an instrument of personal and group enrichment.

Third, rulers and officials were well aware of the Japanese prewar and postwar experience. This provided them with a tangible model of what a disciplined state could achieve both militarily and economically, which contributed to the development of a mission-oriented organizational culture in key government agencies.

As the rulers came to see their survival as dependent on economic success, they strengthened the hand of the economic technocrats within

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the state. The technocrats in turn were able to implement industrial policies that had been pioneered earlier in Japan but had not yet been tried by postwar developing countries. The key policy feature was a "governed market," a system of mostly private enterprises cooperating and competing under state supervision, in the context of heavy investment in education. The state's dirigisme was guided neither by the half light of economic theory nor by the preferences of vote-seeking politicians. Rather, the technocrats paid attention to (1) the industries needed to increase military self-sufficiency, (2) the Japanese model, down to very specific organizational details, (3) results in export markets, and (4) private sector imports of capital and intermediate goods. With criteria derived from these sources they did plenty of what neoliberals say bureaucrats cannot do: they picked particular industries for special promotion, encouraging resources into them beyond what individuals were prepared to risk. They treated particular industries at any one time (latterly within information, electronics, and biotechnology) as the natural successors of the bridges and lighthouses of Smith's day—items he thought too critical for the general welfare to be left to market forces. And the onrush of technically educated people into the labor force helped to buffer the government from making mistakes in picking the winners: as the proportion of skilled people in the labor force rose, projects that were initially too advanced in relation to present comparative advantage soon ceased to be too advanced.

No other developing countries achieved this combination. Korea and Taiwan alone managed to obtain not only the economies of scale that come from acting in a wide economic space and the innovations induced by competition, but also the advantages of protection and selective industrial promotion. Both were able to ride the wave of global internationalization while at the same time imposing a politically determined directional thrust on resource allocation within the national territory. They thereby integrated and transformed the production structure faster than would have occurred had the controllers of capital been allowed to operate within an unconstrained logic of global profit maximization. The advantages of inserting some wedges between the international economy and the national economy were not just economic in the narrow sense. Buffering (but not insulating) people from the disruptions of market volatility helped to sustain the legitimacy of the market-based social order.[87] That in turn helped to avoid the acute

[87] See R. Bates, P. Brock, and J. Tiefenthaler, "Risk and Trade Regimes: Another Exploration," *International Organization* 45, no. 1 (1991); and Wade (fn. 17), chaps. 10, 11.

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social and political instability that otherwise tends to characterize high-speed economic growth, making Korea's and Taiwan's more sustainable.[88]

What does this explanation suggest about the likelihood that other developing countries can transform their economies and raise incomes sufficiently fast to shoot up the hierarchy at something approaching the rates of Korea and Taiwan? It suggests the chances are a good deal slimmer than the neoliberal account would have us believe. Not only is the world economy much less expansive (a point we return to shortly), but also the political conditions needed to establish and sustain the key policy combination of competition, dirigisme, and education are too stringent to be met by many others. The stringency of this combination is consistent with Arrighi and Drangel's data on the *rarity* of country mobility from periphery to semiperiphery or semiperiphery to core over the past five decades.[89] As noted earlier, Korea is the only country in their large sample that moved from periphery in 1938–50 to semiperiphery in 1975–83, and Taiwan would be in the same class had it been in the sample. On the other hand, Malaysia, Thailand, and Indonesia (combined population 270 million) and the coastal provinces of China[90] grew rapidly over the 1980s, though from a low base. Perhaps some Latin American countries, squeezed by debt and by Asian competitition in potential export markets, are moving from the semiperiphery to the periphery, leaving space in the semiperiphery for some of the Asian newcomers to move into. Perhaps Britain, with the most ill-educated labor force of all the core countries[91] and with a long-standing and recently reaffirmed commitment to an overvalued exchange rate, is moving out of the core toward the semiperiphery. This might leave space for some others, such as Singapore, Tai-

[88] This is obviously a highly stylized account. In a longer treatment we would have to deal with the dispersion around these tendencies—such as bureaucratic corruption and infighting, the Rhee period in Korea, and the early Chiang Kai-shek period in Taiwan. We might look at these questions in terms of the "Migdal effect"—the tendency of insecurely established leaders to pulverize the arms of the bureaucracy in order to prevent challenges to their rule from centers of power within the state while at the same time relying on those arms for policy effectiveness and legitimacy. See Migdal (fn. 48). For further discussion, see Wade (fn. 17), chaps. 7–10, esp. 333–42; idem (fn. 5, 1982), chap. 8; and idem (fn. 5, 1983). See also Bruce Cumings, "The Abortive Abertura: South Korea in the Light of Latin American Experience," *New Left Review* 173 (1989).

[89] Arrighi and Drangel (fn. 22).

[90] See Ezra Vogel, *One Step Ahead in China: Guandong under Reform* (Cambridge: Harvard University Press, 1989).

[91] See the discussion between senior British economic policymakers and academic analysts of British decline in Peter Hennessy and Caroline Anstey, eds., *From Clogs to Clogs: Britain's Relative Economic Decline since 1851*, Strathclyde Papers on Government and Politics (Glasgow: Department of Government, University of Strathclyde, 1991).

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wan, Korea, Spain, and parts of Eastern Europe, to move into as they intensify world competition in corelike activities.

The Cusp of Neoliberalism

Whether or not one accepts the idea of a more or less fixed hierarchy, there is no doubt that international trade became more adversarial during the 1970s and 1980s. The escape upward of some of the low-income countries is encountering a more formidable challenge from existing NICs and from the older industrialized countries trying to hang on to existing markets. At the same time, some of the firms that are leading the escape are themselves financed and partly owned by firms from countries higher up the ladder. And within the older industrialized countries trade pressure from low-income countries is fanning political conflict. Those who speak for relatively unskilled workers and their employers are pitted against representatives of those who (whether because of their skills or for other reasons) are insulated from low-wage competition and who reap the benefits in cheaper consumer goods and services. This conflict is being intensified by the new flexible automation manufacturing technologies, with their reduced demand for both basically skilled and unskilled labor.[92]

In light of all this, it is curious that the neoliberal approach, with its emphasis on the mutuality of interests between rich and poor "countries" (treated as unitary entities), became the mainstream of development economics in the mid-1970s. For it was just then that unemployment, inflation, falling profitability, and increasing instability became prominent features of the OECD economies and that NIC expansion looked as if it would lead to serious conflicts of interest with groups in the industrialized economies. The vast outpouring of neoliberal research seems to dispel this fear. Yet as we have seen, the empirical basis for the neoliberal confidence is open to question, as also is its theoretical foundation.[93] This

[92] For a careful attempt to estimate the effect of trade with the "South" on workers of the "North," see Adrian Wood, "How Much Does Trade with the South Affect Workers in the North?" *World Bank Research Observer* 6, no. 1 (1991). See also Manfred Bienefeld, "The International Context for National Development Strategies: Constraints and Opportunities in a Changing World," in Bienefeld and Martin Godfrey, eds., *The Struggle for Development: National Strategies in an International Context* (Chichester: John Wiley, 1982); Paul Streeten, "Comparative Advantage and Free Trade," in Azizur Rahman Khan and R. Sobhan, eds., *Trade, Planning, and Rural Development* (Basingstoke: Macmillan, 1990); and Evans (fn. 35).

[93] The quintessentially neoclassical Heckscher-Ohlin theory says clearly that within each country some gain and some lose from the opening of trade. This is overlooked by many neoliberal practitioners. I should emphasize that my argument does not imply a blanket rejection of free trade policies. On the contrary, in stressing the importance of certain political

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includes the contention that, whatever the condition of the world economy, economic liberalization in poor (as well as rich) countries promotes the mutual interests of rich and poor countries and within countries, of labor and capital, and further, that insofar as mutual interests are not being served, it is generally because the degree of liberalization is insufficient.

I wonder to what extent the continued dominance of this set of beliefs is related to the fact that much of the research has been financed by the main international financial institutions or else has been carried out by people who look to such organizations for careers and consultancies. These organizations believe that their ability to ensure the servicing of outstanding loans depends on the debtor countries' maintaining their commitment to liberalization, which is taken as the best way to promote the exports needed to repay the loans. So these organizations are well aware that liberalizing reform is in their interest as well as in the interest of the main private commercial banks.[94] They have thus campaigned vigorously for reforms of this kind. These two points together satisfy the requirements of a "political" explanation of the broad unanimity of neoliberal research findings in development economics.

But this particular explanation is no doubt only a minor element in the overall assessment. A more important factor is the interests of the controllers of transnational capital and finance. As capital became much more internationalized after the early 1970s, so the power of those whose income is derived from transnational capital and finance multiplied. As a category they have both common and opposed interests. Those based in the high-technology industries (the upstream sources of the radical technological changes sweeping through the production structures of the industrialized countries) have been seeking occult protection and other state supports in order to restrict the corporate and country diffusion of these activities. At the same time they, together with their counterparts in the medium- and low-technology industries (which include the down-

conditions for gap-reducing gains in national income, it also suggests that free trade may be a second-best strategy in cases where the state cannot even begin to approach those conditions (as in some sub-Saharan African countries, for example). There is after all *some* truth to the neoclassical economists' implicit theory of power (also Marx's, in his writings on India) that the possibilities created by expanding markets erode existing power structures, so powerful is the incentive of profit; for that reason power structures are more or less ignored in the neoclassical analysis.

[94] This follows only if evidence shows that the liberalization of the structural adjustment package *is* usually good for export capacity, export earnings, and hence debt servicing. A recent World Bank report, carefully read, casts doubt on this and hence on what is in the bank's self-interest. See World Bank, *Adjustment Lending: An Evaluation of Ten Years of Experience*, Policy and Research no. 1 (Washington, D.C.: Country Economics Department, World Bank, 1988).

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stream applications of the new technologies), have sought to open up third markets, especially in developing countries, to allow them to move their assets worldwide in search of the highest profits. The first of these two tracks involves confrontations as well as alliances between the various technology leaders, backed by their governments; but the second—opening third markets—is something that they can all agree on. So there has been a strong push by transnational capitalists, by governments of countries where transnational capitalists are powerful, and by international financial institutions to seek the removal of state controls over the use of economic assets in third markets and more generally to compress the developmental role of governments. This push has more recently been accompanied by overt support for national political arrangements that facilitate the ability of these groups to influence governments. But their interests need to be presented as entirely consistent with the common interests of national populations—for which the doctrines of "free trade and investment," "democracy," and "human rights" (including the right to use one's property as one wishes) are very convenient.[95] In particular, an explicit model of malign state-market relations is promoted in the context of the technologically downstream activities, while occluding the implicit model of benign state-market relations in technologically upstream ones (occluding, too, the practice of nontariff protection of uncompetitive, low-technology, employment-intensive industries in industrialized countries).

In ways that are anything but straightforward, the power gains of transnational capital in the 1970s and 1980s have reinforced the consensus within economics that mutual interests are generally served by free trade[96]—reinforced it sufficiently to eliminate the earlier anomaly of a development economics that challenged this central tenet. The low professional esteem attached to empirical inquiry then serves to protect the belief against contrary evidence. (Asked what attainments contribute to success in the profession, only 3 percent of 212 graduate students in economics said that "having a thorough knowledge of the economy" was "very important"; 68 percent thought it "unimportant.")[97] Only very compelling facts about situations close to home will serve to breach the

[95] I suggest no more than that the interests of transnational capital are one important set of causes of the wave of democratization in developing countries and of the salience of democracy and human rights in Northern strategy for North-South relations. See World Bank, *World Development Report, 1991* (Washington, D.C.: World Bank, 1991), chap. 7.

[96] Bruno Frey et al., "Consensus and Dissensus among Economists: An Empirical Inquiry," *American Economic Review* 74, no. 1 (1984).

[97] David Colander and Arjo Klamer, "The Making of an Economist," *Journal of Economic Perspectives* 1 (Fall 1987), 100.

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defenses. The examples of Japan, Korea, and Taiwan have not been enough to do so. How much worse will the long-term economic performance of the U.S. and the U.K. have to get before the mainstream of the English-speaking economics profession begins to sound less like Herbert Stein, chairman of the Council of Economic Advisors during the Reagan years ("If the most efficient way for the U.S. to get steel is to produce tapes of 'Dallas' and sell them to the Japanese, then producing tapes of 'Dallas' is our basic industry"),[98] and less like Sir Terence Burns, chief economic adviser during the Thatcher years ("If we can't make money by manufacturing things, we'd bettter think of something else to do"),[99] and more like Governor Park of the Korea Central Bank and the senior MITI official quoted at the outset?[100]

[98] See U.S. Congress, House of Representatives, *Industrial Competitiveness Act House Report 98-697*, 98th Cong., 2d sess., April 24, 1984, p. 83.

[99] He was responding to complaints that tight monetary policies were destroying Britain's manufacturing industry; "Profile: Sir Terence Burns, Not Merely a Civil Servant," *Independent*, March 16, 1991, p. 16.

[100] This is not to endorse a "proindustry/antiservices" argument, nor is it to suggest that comparative advantage is irrelevant. Rather, the point is that Governor Park and the MITI official believe that government has some responsibility for formulating a view of the appropriate industrial and trade profile of the economy and for using public power to push in that direction, whereas Stein and Burns emphatically do not. It may be thought that a new interventionism has already arrived in mainstream economics, in particular, in the form of "strategic trade theory." But I am talking here of the developing country context, and most proponents of strategic trade theory would say it does not apply widely under developing country conditions. The World Bank has certainly tried to neutralize its polluting effect on neoliberal prescriptions. After summarizing strategic trade theory it concludes, "The trade theorists who helped develop the literature on strategic trade theory remain extremely sceptical about its policy relevance. Most fear that, rather than being used to enhance national welfare, these new ideas will do damage in the hands of interventionists who take cover behind the intellectual respectability these ideas provide." Note the implication that "interventionists" have no intellectual justification for their position and hence need a cover of intellectual respectability. See "Strengthening Trade Policy Reform (Washington, D.C.: World Bank, November 1989), Box 1-2. See also E. Helpman, "The Noncompetitive Theory of International Trade and Trade Policy," Annual Conference on Development Economics, supplement to the *World Bank Economic Review* (1989). Helpman concludes, "Policy should be designed on a case-by-case basis and . . . no intervention (free trade) remains a good rule of thumb" (p. 193). Only the first part of the sentence really follows from his analysis, the second being more the World Bank line. See also Wade (fn. 17), 14, 378. If a new interventionism has not yet entered the mainstream, there are signs of a new defensiveness. Consider, for example, the following. After the *Economist* published an unusually enthusiastic review of *Governing the Market* (June 1, 1991, pp. 102–3), the reviewer received over six transatlantic phone calls from World Bank officials ringing to complain about the *Economist* publishing a favorable review of a book by an interventionist. Several said the journal was lowering its standards. Another said, "Don't you know he is an *interventionist*?" The reviewer asked each whether he had read the book or even glanced at it. Answer: No, in every case. See James Fallows, "Economics of the Colonial Cringe," *Washington Post*, October 6, 1991, for an exactly opposite interpretation of the *Economist*'s review.

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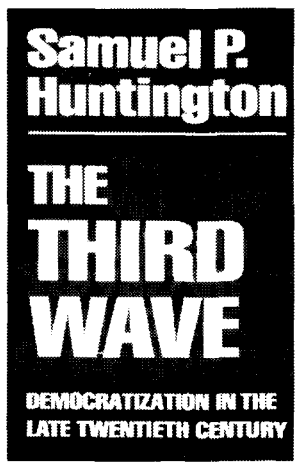

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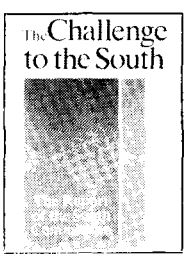

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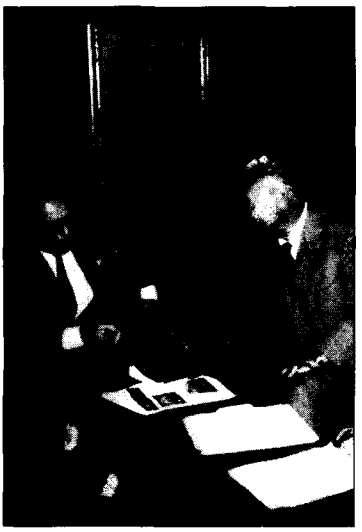

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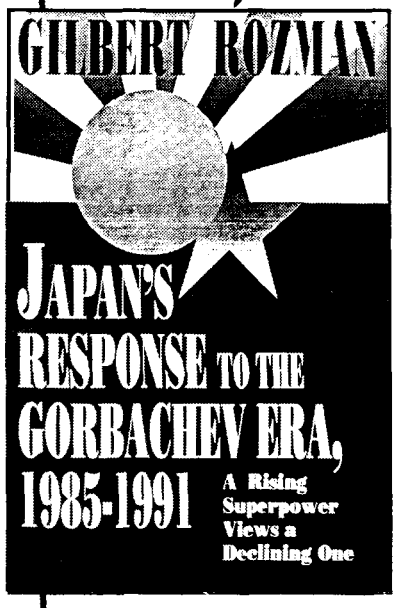

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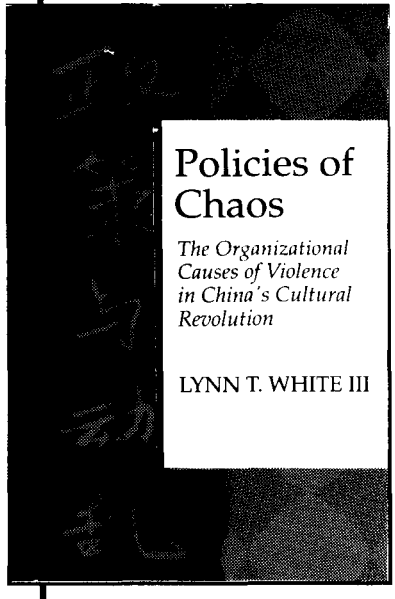

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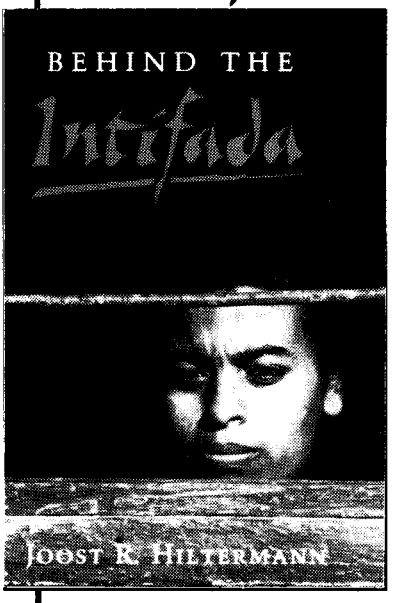

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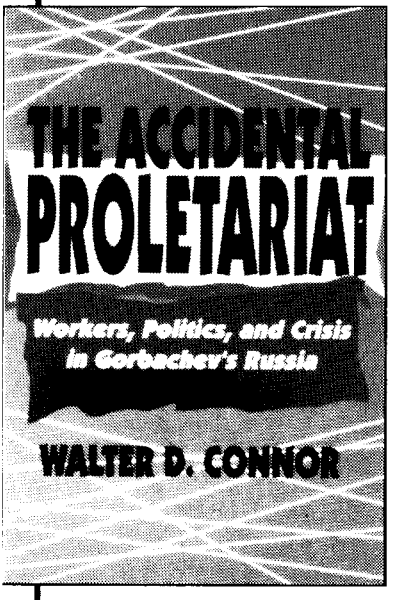

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